

" The City of Heritage "



ULUNDI MUNICIPALITY

ANNUAL REPORT

FOR THE YEAR ENDED

30 JUNE 2009

INDEX

1. The annual financial statements compiled and submitted to the Auditor General in terms of sec. 122.
2. The Auditor General's Audit Report in terms of sec.126 (3) on those annual financial statements.
3. The annual performance report prepared in terms of sec. 46 of the Municipal Systems Act No. 32 of 2000.
4. the Auditor General's Audit Report in terms of sec.45 (b) of the Systems Act
5. An assessment by the Accounting Officer of any arrears on municipal taxes and service charges.
6. An assessment by the Accounting Officer of the municipality's performance against the measurable performance objectives referred to in sec. 17 (3) (b) for revenue collection from each revenue source and for each vote in the municipality's approved budget for the relevant financial year.
7. Any corrective action taken or to be taken in response to the comments contained in the Audit Report.
8. Any explanations that may be necessary to clarify issues in connection with the financial statements.
9. Any information as determined by the municipality.
10. Any recommendations of the municipality's audit committee.

ATTACHMENTS:

1. Purpose

With effect from 2006/2007 financial year, Ulundi Municipality as a low capacity municipality has an obligation to comply with sec.121 of the Municipal Finance Management Act, Act 56 of 2003. The rational and purpose, as outlined in sec.121 (2) of the Act, is to provide a record of the activities of the municipality, to provide report on the performance of the municipality in compliance with sec.46 (1) of the Systems Act, Act 32 of 2000. The aim hereof is to promote management transparency and accountability to Council, treasury, the Auditor General, the MEC for Local Government and Traditional Affairs and the local communities for the milestones, failures and strides made against the measurable targets, as set for the year.

This draft report contains inter alia, information as disclosed in the financial statements for the year under review, matters captured in the final Management Report on the Regularity Audit and the Review of the Performance Information of the municipality and possible measures to address the short-comings in the Report.

2. Preparation and adoption

In keeping with to sec.121 of the Municipal Finance Management Act, 56 of 2003, every municipality must for each financial year prepare an annual report in accordance therewith. Sec. 121 further states that the Council of a municipality must within 9 months after the end of a financial year deal with the annual report of the municipality. This draft report serves to fulfill an obligation made to the AG come up with a draft Annual Report to indicate matters to possibly go into the final report, for purposes of disclosure to the AG. The final Annual Performance Report to also contain inter alia, the information regarding performance assessments of section 57 Managers, will serve before Council within one month of receiving the Audit Report, to be in line with sec. 46 of the Systems Act.

As a transparent local authority, written notices shall be conveyed to the AG, the MEC and the community, giving notice about the tabling of the Annual Performance Report and the Annual Report before Council respectively.

The 9 month after the end of the financial year period within which the report must be tabled before Council expires at the end of March every year. If fact this report will serve before the Executive and Finance Committee on 25 November 2009 and before Council on 15 December 2009. The comments of the AG in the Audit Report will be integrated accordingly. The final report tabled before Council will be made available to the enumerated authorities listed supra.

For purposes of completeness the following breakdown of sec. 121 is a must and is as follows:

Sec 121(3) states that the annual report must include;

11. The annual financial statements compiled and submitted to the Auditor General in terms of sec. 122.
12. The Auditor General's Audit Report in terms of sec.126 (3) on those annual financial statements.
13. The annual performance report prepared in terms of sec. 46 of the Municipal Systems Act No. 32 of 2000.
14. the Auditor General's Audit Report in terms of sec.45 (b) of the Systems Act
15. An assessment by the Accounting Officer of any arrears on municipal taxes and service charges.
16. An assessment by the Accounting Officer of the municipality's performance against the measurable performance objectives referred to in sec. 17 (3) (b) for revenue collection from each revenue source and for each vote in the municipality's approved budget for the relevant financial year.
17. Any corrective action taken or to be taken in response to the comments contained in the Audit Report.
18. Any explanations that may be necessary to clarify issues in connection with the financial statements.
19. Any information as determined by the municipality.
20. Any recommendations of the municipality's audit committee.

In terms of sec. 46(1) of the Systems Act a comparison must be drawn between the current year's performance and the previous year's and the development and service delivery priorities set by the municipality for the following financial year. And general measures, as alluded to, to improve performance.

1. THE ANNUAL PERFORMANCE REPORT

The performance management system of Ulundi Municipality for 2008/2009 was developed to comply with and is in line with the following legal provisions:

1. The Constitution of the Republic of South Africa of 1996, as amended
2. The White Paper on Local Government, published in 1998
3. The Municipal Structures Act, No 117 of 1998, as amended
4. The Municipal Systems Act, No 32 of 2000, as amended
5. The Municipal Structures Amendment Act, No 33 of 2000

6. The Municipal Planning and Performance Regulations, gazette in August 2001
7. The Municipal Finance Management Act, No 56 of 2003
8. The Municipal Performance Regulations for Municipal Managers and Managers reporting to the Municipal Manager, gazette in August 2006

Importantly the OPMS of Ulundi Municipality for 2008/2009 in keeping with sec. 26 of the Systems Act, as amended the IDP of the municipality remains the chief documents to inform on activities and developmental priorities as streamlined in the performance management system of the municipality. The core components as outlined in sec.26 read with sec. 35(1) are embraced in the OPMS of the municipality. The IDP remains the instrument which guides all planning and development in the municipality.

The integration of the IDP and the budget through the inclusion of, especially, all capital projects in the budget made it possible for such included items in the key performance indicators to have credence and to be realistically achievable.

The Organizational Performance Management System with key deliverables is key herein. However a PMS that does not provide for linkages between the 5 National Key Performance Areas; namely, Infrastructure and Services Delivery, Good Governance Public Participation, Social and Economic Development, Financial Viability and Institutional Development. For the first time ever in 2006/2007 the Organizational Performance Management System of Ulundi was credible in that it complied with the Guidelines on Performance Management issued by DLGTA as a guide to all municipalities in KZN. In 2007/2008 this compliance was maintained through the application of the same document with a reviewed SDBIP for 2007/2008. Again in 2008/2009 the OPMS followed the compliance patens by maximizing return on management through the following components that were used to direct managers and Council on what to do on a daily basis:

1. The document provides a high level overview of the contents of the OPMS
2. It maps out all legislative imperatives as outlined here-above
3. It outlines the critical success factors
4. It provides the Framework which provides a precursor to the document
5. It contains the policy, which enshrines the elements and facets of performance and procedure and practice of performance management. The Policy identifies stakeholders, reporting frequencies and lines of accountability. It also establishes structures to monitor, review and assess performance in 2008/2009 as follows:

The IDP Representatives Forum (fully operational)
The IDP Steering Committee (fully operational)
The Internal Audit Unit (not operational)

The Audit Committee (not operational)
The Performance Assessment Committee (operational)
The role of Exco and Council in the review and monitoring of performance.

6. Performance by contract is made a must; therefore it answers the following legal imperatives with the affirmative:

- 5.1 The sec. 56 of the Systems Act's conclusion of Employment and Performance Agreements
- 5.2 It provides for departmental Performance Plans, through which Departmental heads take responsibility to work towards the attainment of key performance indicators
- 5.3 It responds with the affirmative to a requirement of Circular 13 regarding quarterly review of performance by means of the Service Delivery and Budget Implementation Plan

This continued compliance and credibility are possible due to the linkage between the National Key Performance Areas that are set by the National Government with the IDP of Ulundi for 2008/2009. In a sequence the IDP is linked with 2008/2009 budget estimates. These departmental PMS undertakings will be assessed on the basis of whether managers were able to fulfill their obligation measurable though their objectives, performance target and key performance indicator.

The Key Performance Indicator, which identifies the type that Key Performance Indicator was, the time frame to achieve that deliverable, the overall budget implication and the committed budget for 2008/2009 and the responsible department are a feature that make development planning a success in Ulundi.

The Municipal Manager and the HOD's had a responsibility to deliver the programs contained in the Performance Plans and the SDBIP, as entailed in the concluded Performance Agreements in terms of sec. 57 (1) (b), (4A), (4B) and (5) of the Systems Act. Sec 57(1) (a) places an obligation for a sec. 57 Manager to conclude a separate Performance Agreement, as alluded to above, that is reviewed annually. Sub- Sec. (4A) states that the provisions of the MFMA conferring responsibilities on the Accounting Officer must be regarded as forming part of the municipal manager's agreement. Sub-Sec (4B) regulates the conditions under which the bonuses for outstanding performance may be awarded at the end of the financial year only once the performance of a municipality (per department) has been assessed. (5) explains that the objectives and targets must be practical, measurable and based on the key performance indicators. The above information is entrenched in clause 1 titled "PURPOSE OF THE AGREEMENT" of the Performance Agreements of sec. 57 managers concluded for 2008/2009.

In essence in the 2008/2009 financial year there was an approved functioning performance management system.

The performance assessment for Section 57 Directors was concluded. The qualifying directors included:

- The Municipal Manager;
- The Director of Corporate Services; and
- The Director of Community Services.

The Chief Financial Officer and the Director of Protection Services were excluded from the assessment process due to the condition that performance bonuses are only concluded on Directors who have served in the post for the full financial year.

The Technical Services Department was not assessed because the manager is not a Section 57 Director. It should be noted that the filling of this post will be catered for in the adjustment budget in terms of Section 28 of the MFMA.

The first Performance Committee members comprised of

- The Municipal Manager of Ulundi Municipality;
- The Municipal Manager of Vryheid Municipality;
- A member of the Audit Committee, Mr. Ndwandwe.

The outcome of the assessment was as follows:

The Director of Corporate Services was awarded a performance bonus of 12 % of the full annual remuneration package. The calculation of this bonus was based on results achieved of 148 points out of a total of 156 available in the key performance area of the assessment, and 90 points out of a total of 100 in the Core Managerial competency area of the assessment. The total score achieved in terms of the 2006 regulations was 136.

The Director of Community Services was awarded a performance bonus of 10 % of the full annual remuneration package. The calculation of this bonus was based on results achieved of 141 points out of a total of 156 available in the key performance area of the assessment, and 80 points out of a total of 100 in the Core Managerial competency area of the assessment .The total score achieved in terms of the 2006 regulations was 113 .

The Performance Bonus awarded to the Municipal Manager was calculated based on the average of the bonuses awarded above and this was calculated at 11%.

It should be noted that in terms of the Regulations promogated in 2006, the maximum performance bonus is restricted at 14%.

3. DEFICIENCIES

The following deficiencies regarding performance are hereby acknowledged and will be addressed in the 2009/2010 financial year:

While departmental reports were submitted to the Executive and Finance Committee on a monthly basis, the quarterly reports on management performance and performance of the service providers were not submitted. This is being addressed in 2009/2010.

There were few instances where some departments allowed employees to work excessive overtime hours, this is being addressed as well.

Although Council, through the Executive and Finance Committee and the Portfolio Committees and Council there was oversight, the municipality has gone a step further by establishing the SCOPA. This will enable Council to have a mechanism to monitor and supervise the administration and the executive.

However it is imperative that a mention is made that Council and Council structures did provide oversight as follows:

1. Council conducted 4 Ordinary meetings and 7 Special Meetings (The obligation is 4 meetings)
2. The Executive and Finance Committee conducted 15 Ordinary meetings and 12 Special meetings (the norm in terms of the Structures Act is 12)
3. The Community Services Portfolio Committee conducted 22 meetings.
4. The Technical and Infrastructure Portfolio Committee 8 meetings
5. Planning and Economic Development 5 meetings
6. Tourism Committee 5, and
7. The newly established Protection Services Portfolio Committee held 3 meetings.

4. REPORT ON THE PERFORMANCE OF SERVICE PROVIDERS

The composite list of service providers who did business with and for the municipality in the year 2008/2009 financial year is attached herewith. A brief overview of performance of service providers as required by sec.46 (1) (a) of the Systems Act shall be addressed here-below. However it is imperative to begin by assessing the contribution made by the municipality to Historically Disadvantaged Individuals, local content women expressed as a number and percentage:

In the 1st quarter:

8 Bids were awarded

Total value: R9, 721,422.16

HDI: R9, 721,422.16 =100%

Local content: R1, 260,966.4 =13%

Women: R351, 603,20 =4%

In the 2nd quarter:

5 Bids were awarded

Total value: R12, 958,069.24

HDI: R12, 958,069.24 = 100%

Local content: R6, 059,815.24 = 47%

Women: 306,000.00 = 5%

In the 3rd quarter:

3 bids were awarded

Total value: R1, 014,183.00

HDI: R820, 795.50 =81%

Local content: R386, 775.00 = 38%

Women: R627, 408.00 = 62%

NB. In this regard Council will recall that an Unsolicited Bid was proposed to Council regarding Smart Meter Technology, which prompted Council to advertise a bid regarding Smart Meters. A successful bidder was Ntuthuko (PTY) LTD. It is now history that this service provider failed dismally to come through, citing repudiation by DBSA to fund their venture. It was reported to Exco previously that Messrs Ntuthuko were refused a request that they made in terms of sec. 48 of the MFMA to be given Security in the form of an amount of R1,2 million monthly.

It is an understatement to say that Council could have been crippled by this. And when management were uneasy about this and consulted treasurer. Treasure advised that Council should re-advertise this bid and follow all MFMA steps as this would be tantamount to a long term debt. Therefore the involvement of the community was required. Ntuthuko are therefore the worst performing service provider since they did not perform at all. Fortunately no money was paid out to them and the contract has since been terminated.

In the 4th quarter:

4 bids were awarded
Total value: R574, 619.00
HDI: R574, 619.00 = 100%
Local content: R259, 119.00 = 45%
Women: R162, 108.00 = 28%

Detailed information and the graphs are attached to this report.

5. CURRENT YEARS' TARGETS AS WELL AS PRIOR YEARS

The failure of the Smart Technology bid to deliver the goods left the municipality with a historical problem to improve on the target to increase revenue. Although the realization of this bid would have enabled the municipality to respond to the Electricity Regulations obligation to be on a Smart Meter Technology by 2013, it was always a risky venture for a municipality the size of Ulundi to conclude in which the municipality was indebted for the amount of R32 million payable beyond the term of this Council. Although there was temptation since the fruitful operation of the Meters would have generated revenue for the municipality.

The closing balance in the financial statements for 2007/2008 and 2008/2009 indicate that Ulundi Municipality is not financially sound.

It is disheartening though to observe that government departments such as Public Works in the Province, Land Affairs and Ingonyama Trust Board are the main culprits, as their debts run in millions and millions of rands as the financial statements indicate.

Funding could not be secured to replace the conventional meters. This situation contributes to the escalating debt, as residents who use these meters account for the large chunk of the debt. The Business Plan submitted to DLGTA under MAP was not successful.

The issue of the sale of land generally is the problem. In 2007/2008 the anticipated income through land sales of about R5 million was not achieved. Instead about R859 000.00 was collected. The bulk of the rates debts are from vacant sites, whose owners are not honoring their rates obligations. Expropriation of these properties for resale is an option available to Council. Also even sold to private individuals by way of a public treaty recently amounting to millions of rands remain unfinalised. It is one thing to make an offer of purchase on paper, however payments in this regard is proving to be illusive.

It seems that businesses that operate from residential properties such as lodges, bed and breakfast facilities, spaza shops etc are escalating. The issue here is that since most of these facilities are unregistered as commercial facilities, rates

raised on these properties is for residential properties and they receive a 60% rebate that is enjoyed by residential housing dwellings.

Therefore revenue generation remains the main issue in 2007/2008, 2008/2009 and going forward.

6. MEASURES TO IMPROVE

The Management response in this regard is to invite proposals from service providers who specialize in debt collection to try and maximize collection of especially debts that are 120+ old.

Furthermore the Executive and Finance Committee on 28 October 09 handed over the government departments to Council attorneys for collection. It is hoped that sec.44 of the MFMA will not be a deterrent. As experience informs that where treasury is approached for mediation where the municipality is owed money by a government department in terms of sec.44 of the MFMA, there are no prospects of recovery. Reference for this is the tussle between the municipality and Public Works that ensued in 2004.

The Electricity Disconnection Task Team continues to do a splendid work in carrying out disconnections thereby mitigating the escalation of current debts.

Management shall continue to tap the other sources of funding such as the DBSA, as this falls under revenue generation.

The Revenue Division of Finance and Town Planning have been joined together to sift through a list of all properties owing. As the degree of indebtedness vary from property to property, action plans will be developed in consultation with Council's legal advisors to overcome the problem.

Planning has been instructed to physically identify all properties where there is any sort of business taking place. Once these have been identified, the Municipal Property Rates Act and the Tariff Policy of Council will apply.

The populated SDBIP documents per department depicting milestones in the year under review on objective, activity, annual target and achievement per quarter are attached herewith.

4. The Auditor General's Audit Report in terms of sec.45 (b) of the Systems Act

The financial statements, the Audit Report and the Management Report are attached herewith and will be tabled .

5. An assessment by the Accounting Officer of any arrears on municipal taxes and service charges.

Section 121 (3) (e) provides for the assessment by the Accounting Officer of the arrears on taxes and services. The revenue collection figures are reflected below

| 2 TRADE AND OTHER RECEIVABLES <u>Trade receivables</u> as at 30 June 2009 | Gross Balances R | Provision for Doubtful Debts R | Net Balance R |
|---|---------------------|--------------------------------------|-------------------|
| Service debtors | 18,871,628 | 14,389,681 | 4,481,947 |
| Rates | 55,511,952 | 38,430,280 | 17,081,672 |
| Electricity | 10,567,277 | 7,173,784 | 3,393,493 |
| Other Refuse | 5,221,460 | 3,825,132 | 1,396,328 |
| Total | 90,172,317 | 63,818,877 | 26,353,440 |
| as at 30 June 2008 | | | |
| Service debtors | 20,711,677 | 20,711,677 | - |
| Rates | 47,812,994 | 29,691,368 | 18,121,626 |
| Electricity | 10,937,114 | 7,862,848 | 3,074,266 |
| Other | 5,441,914 | 1,502,264 | 3,939,650 |
| Total | 84,903,699 | 59,768,157 | 25,135,542 |
| 2009 | | | |
| Rates: Ageing | | | |
| Current (0 – 30 days) | 1,847,898 | 1,746,363 | |
| 31 - 60 Days | 1,431,408 | 1,402,806 | |
| 61 - 90 Days | 1,848,383 | 1,286,905 | |
| 91 - 120 Days | 1,502,800 | 1,203,653 | |
| 121 days and over | 48,881,463 | 42,173,267 | |
| Total | 55,511,952 | 47,812,994 | |

Electricity, Water and Sewerage: Ageing

| | | |
|--|-----------------------|-----------------------|
| Current (0 – 30 days) | 973,646 | 751,596 |
| 31 - 60 Days | 547,877 | 676,888 |
| 61 - 90 Days | 463,927 | 457,916 |
| 91 - 120 Days | 381,843 | 503,949 |
| 121 days and over + 365 Days | 32,293,072 | 34,700,356 |
| Total | 34,660,365 | 37,090,705 |
| Total - rates and service charges | 90,172,317 | 84,903,699 |

The outstanding property rates balance included an amount of R 10,974,218 in respect of Ingonyama Trust Land. The recovery of these rates is unlikely and this has been referred to Council to consider the write off thereof.

Reconciliation of the doubtful debt provision

| | | |
|--|-------------------|-------------------|
| Balance at beginning of the year | 59,768,157 | 57,005,155 |
| Contributions to provision | 7,936,213 | 4,030,307 |
| Doubtful debts written off against provision | (3,885,493) | (1,267,305) |
| Balance at end of year | 63,818,877 | 59,768,157 |

Trade and other receivables past due but not impaired

Trade and other receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2009, R6,176,238 (2008: R5,532,117) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

| | | | |
|-------------------|-------|------------------|------------------|
| 1 month past due | 31-60 | 1,979,285 | 2,079,694 |
| 2 months past due | 61-90 | 2,312,310 | 1,744,821 |
| | | 4,291,595 | 3,824,515 |

Trade and other receivables impaired

As of 30 June 2009, trade and other receivables of R90,172,317 (2008: R 84,903,699) were impaired and provided for. The amount of the provision was R 63,818,877 as of 30 June 2009 (2008: R59,768,157). The ageing of these receivables is as follows:

| | | |
|---------------|------------|------------|
| Over 3 months | 83,059,178 | 59,768,157 |
| | 83,059,178 | 59,768,157 |

The fair value of trade and other receivables approximates their carrying amounts.

6. Any corrective action taken or to be taken in response to the comments contained in the Audit Report.

Of significant importance is the OPINION:

"In my opinion the financial statements present fairly, in all material respects, the financial position of the Ulundi Municipality as at 30 June 2009 and its financial performance and its cash flows for the year then ended, in accordance with the Standards of GRAP and in the manner required by the MFMA."

There were however matters included in the Audit reports which still remain a problem for Ulundi Municipality. These have been extracted from the audit report and are reflected in the following table and will be dealt with separately.

Matters on Key governance responsibilities were audited and the following areas received negative audit findings:

| No. | Matter |
|---|--|
| <i>Clear trail of supporting documentation that is easily available and provided in a timely manner</i> | |
| 1. | <i>No significant difficulties were experienced during the audit concerning delays or the availability of requested information.</i> |
| <i>Quality of financial statements and related management information</i> | |
| 2. | <i>The financial statements were not subject to any material amendments resulting from the audit.</i> |
| 3. | <i>The annual report was submitted for consideration prior to the tabling of the auditor's report.</i> |
| <i>Development and compliance with risk management, effective internal control and governance practices</i> | |

| No. | Matter |
|------------------------------------|---|
| 6. | <i>Audit committee</i> |
| | <ul style="list-style-type: none"> • <i>The municipality had an audit committee in operation throughout the financial year.</i> • <i>The audit committee operates in accordance with approved, written terms of reference.</i> • <i>The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.</i> |
| 7. | <i>Internal audit</i> |
| | <ul style="list-style-type: none"> • <i>The municipality had an internal audit function in operation throughout the financial year.</i> • <i>The internal audit function operates in terms of an approved internal audit plan.</i> • <i>The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.</i> |
| 8. | <i>There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.</i> |
| 9. | <i>There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.</i> |
| 11. | <i>A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used, as set out in section 62(1)(c)(i) of the MFMA.</i> |
| Follow-up of audit findings | |
| 13. | <i>The prior year audit findings have been substantially addressed.</i> |

1. The audit preparation phase included the collation and preparation of files containing all supporting documents for transactions concluded during the year under review. Prior to the commencement of the audit this process was concluded and it should be noted that initially there were only two sets of documents not included in these files, these were subsequently located and filed. A break down in internal controls over these documents resulted in the auditors concluding that there were delays in providing these documents. In future periods stricter controls will be implemented to avoid these delays.

2. The Annual Financial Statements were adjusted as follows:

Operating expenditure R 2 192 208

These expenses related to the costs incurred in the preparation of the valuation roll, these expenses were initially capitalized, and then subsequently expensed.

Bad Debts adjustment R 2 414 652

On review and discussion with the auditors the decision was taken to increase the provision to include amounts aged within the 90 days overdue period.

Creditors – Leave pay provision R 584 94

The provision initially raised was considered overstated.

Cash and Bank R 429 081

In consistency with prior year's disclosure, unallocated receipts at year end were initially recorded within trade debtors, in the current year these amounts have been adjusted against the disclosed cash and bank balance.

Incorrect treatment of Vat R 465 941

In preparation of the supporting schedules covering the Bulk Electricity Purchases, it was identified by the accounting staff of the municipality, that a Vat inclusive accrual for the June 2009 expense had been accrued inclusive of Vat. On discussion with the auditors this adjustment was processed.

3. The Annual Report

Municipality presented the Draft Annual Report to the auditors for review.

4. Audit committee

5. Internal Audit

6. Deficiencies in Internal Controls

7. Risk assessment

8. Prior year audit findings

7. Any recommendations of the municipality's audit committee.

RECOMMENDATIONS

- 1. THAT the 2008/2009 Auditor General's Report on the Financial Statements for the year under review be noted, with specific reference to fact that Ulundi Municipality received an Unqualified Report for 2008/2009 just like in 2007/2008.**
- 2. THAT the Performance Report and other reports for the year under review be noted.**
- 3. THAT the Annual Report for 2008/2009 be adopted.**
- 4. THAT Council endorses the section 57 Performance Assessment results for 2008/2009.**

5. THAT copies of the Report be conveyed to DLGTA, treasury and the AG.

**REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL
LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND
PERFORMANCE INFORMATION OF ULUNDI MUNICIPALITY FOR THE YEAR ENDED
30 JUNE 2009**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Ulundi Municipality which comprise the statement of financial position as at 30 June 2009, and the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages xx to xx.

The accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing read with General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. Paragraph 11 et seq. of the Standard of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in

accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Ulundi Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.

7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

8. In my opinion the financial statements present fairly, in all material respects, the financial position of the Ulundi Municipality as at 30 June 2009 and its financial performance and its cash flows for the year then ended in accordance with the Standards of GRAP and in the manner required by the MFMA.

Other matters

Without qualifying my opinion, I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Material inconsistencies in information included in the annual report

9. I have not obtained the other information included in the annual report and have not been able to identify any material inconsistencies with the financial statements.

Unaudited supplementary schedules

10. The municipality provided supplementary information in the Annexure XX and XX to the financial statements on whether resources were obtained and used in accordance with the legally adopted budget, in accordance with GRAP 1 *Presentation of Financial Statements*. The supplementary budget information and other supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly, I do not express an opinion thereon.

Non-compliance with applicable legislation

Municipal Finance Management Act

11. The municipality did not have a listing nor did it invite prospective providers to apply for evaluation and listing as accredited providers, as required by regulation 14(1)(b) of the Municipal Supply Chain Management Regulations, published in General Notice No. 868 of 2005, dated 30 May 2005, issued in terms of section 168 of the MFMA.

Municipal Systems Act

12. Reports relating to oversight on the supply chain management process were not prepared nor were they made public in terms of section 21A of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

Princess SA Buthelezi
Municipal Manager
Ulundi Municipality
Private Bag X17
ULUNDI
3838

30 November 2009

Reference: 60637REG2008/09

Dear Princess Buthelezi

Report of the Auditor-General on the financial statements and performance information of the Ulundi Municipality for the year ended 30 June 2009

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act, 2004 (Act No. 25 of 2004) read in conjunction with section 188 of the Constitution of the Republic of South Africa, 1996 and section 121(3) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA)
2. The audit report is issued as a final draft pending our receipt of all other documents that will be included in the annual report that will contain the audited financial statements is received.
3. Once these documents are received we will read them to establish if there are any inconsistencies with the audited financial statements. You will then be requested to amend this other information or the financial statements in respect of any inconsistencies. Once this process has been satisfactorily completed we will issue the final signed audit report.
4. In terms of section 121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled to Council.
5. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
6. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.

- The signature *Auditor-General* (which will be issued when the requirements of paragraph 3 above have been met) in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.
7. Please notify the undersigned person well in advance of the date on which the annual report containing this audit report, will be tabled.
 8. Your co-operation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Vanuja Maharaj

Operational Leader: KZN

Enquiries: Melissa Govender
Telephone: (033) 264 7400
Fax: (033) 263 7596

**REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL
LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND
PERFORMANCE INFORMATION OF ULUNDI MUNICIPALITY FOR THE YEAR ENDED
30 JUNE 2009**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Ulundi Municipality which comprise the statement of financial position as at 30 June 2009, and the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages xx to xx.

The accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. Paragraph 11 et seq. of the Standard of Generally Recognised Accounting Practice, *GRAP 1 Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in

accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Ulundi Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.

7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

8. In my opinion the financial statements present fairly, in all material respects, the financial position of the Ulundi Municipality as at 30 June 2009 and its financial performance and its cash flows for the year then ended, in accordance with the Standards of GRAP and in the manner required by the MFMA.

Other matters

Without qualifying my opinion, I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Material inconsistencies in information included in the annual report

9. I have not obtained the other information included in the annual report and have not been able to identify any material inconsistencies with the financial statements.

Unaudited supplementary schedules

10. The municipality provided supplementary information in the Annexure XX and XX to the financial statements on whether resources were obtained and used in accordance with the legally adopted budget, in accordance with GRAP 1 *Presentation of Financial Statements*. The supplementary budget information and other supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly, I do not express an opinion thereon.

Non-compliance with applicable legislation

Municipal Finance Management Act

11. The municipality did not have a listing nor did it invite prospective providers to apply for evaluation and listing as accredited providers, as required by regulation 14(1)(b) of the Municipal Supply Chain Management Regulations, published in General Notice No. 868 of 2005, dated 30 May 2005, issued in terms of section 168 of the MFMA.

Municipal Systems Act

12. Reports relating to oversight on the supply chain management process were not prepared nor were they made public in terms of section 21A of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

Governance framework

13. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the key governance responsibilities addressed below:

Key governance responsibilities

14. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

| No. | Matter | Y | N |
|-----|---|--------------------------|---|
| | Clear trail of supporting documentation that is easily available and provided in a timely manner | | |
| 1. | No significant difficulties were experienced during the audit concerning delays or the availability of requested information. | <input type="checkbox"/> | |
| | Quality of financial statements and related management information | | |
| 2. | The financial statements were not subject to any material amendments resulting from the audit. | <input type="checkbox"/> | |
| 3. | The annual report was submitted for consideration prior to the tabling of the auditor's report. | <input type="checkbox"/> | |
| | Timeliness of financial statements and management information | | |
| 4. | The annual financial statements were submitted for auditing as per the legislated deadlines, as set out in section 126 of the MFMA. | <input type="checkbox"/> | |
| | Availability of key officials during audit | | |
| 5. | Key officials were available throughout the audit process. | <input type="checkbox"/> | |
| | Development and compliance with risk management, effective internal control and governance practices | | |
| 6. | Audit committee | | |
| | • The municipality had an audit committee in operation throughout the financial year. | <input type="checkbox"/> | |
| | • The audit committee operates in accordance with approved, written terms of reference. | <input type="checkbox"/> | |
| | • The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA. | <input type="checkbox"/> | |
| 7. | Internal audit | | |
| | • The municipality had an internal audit function in operation throughout the financial year. | <input type="checkbox"/> | |
| | • The internal audit function operates in terms of an approved internal audit plan. | <input type="checkbox"/> | |
| | • The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA. | <input type="checkbox"/> | |
| 8. | There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management. | <input type="checkbox"/> | |
| 9. | There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations. | <input type="checkbox"/> | |
| 10. | The information systems were appropriate to facilitate the preparation of the financial statements. | <input type="checkbox"/> | |

| No. | Matter | Y | N |
|--|---|--------------------------|---|
| 11. | A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used, as set out in section 62(1)(c)(i) of the MFMA. | <input type="checkbox"/> | |
| 12. | Delegations of responsibility are in place, as set out in section 79 of the MFMA. | <input type="checkbox"/> | |
| Follow-up of audit findings | | | |
| 13. | The prior year audit findings have been substantially addressed. | <input type="checkbox"/> | |
| 14. | SCOPA/Oversight resolutions have been substantially implemented. | <input type="checkbox"/> | |
| Issues relating to the reporting of performance information | | | |
| 15. | The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete. | <input type="checkbox"/> | |
| 16. | Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information. | <input type="checkbox"/> | |
| 17. | A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the Ulundi Municipality against its mandate, predetermined objectives, outputs, indicators and targets, as set out in section 68 of the MFMA. | <input type="checkbox"/> | |
| 18. | There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance. | <input type="checkbox"/> | |

15. Although key personnel were available throughout the audit to render assistance, significant difficulties were experienced with regards to availability of requested information. Further weaknesses were also evident, which indicates that the municipality should take adequate steps to improve the internal controls surrounding audit trails, compliance with risk management, governance and the monitoring of financial reporting in the financial statements and management information.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

16. I have reviewed the performance information as set out on pages xx to xx.

The accounting officer's responsibility for the performance information

17. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality, prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

The Auditor-General's responsibility

18. I conducted my engagement in accordance with section 13 of the PAA read with General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008 and section 45 of the MSA.
19. In terms of the foregoing my engagement included performing procedures of a review nature to obtain sufficient appropriate evidence about the performance information and

related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

20. I believe that the evidence I have obtained is sufficient and appropriate to report that no significant findings have been identified as a result of my review.

APPRECIATION

21. The assistance rendered by the staff of the Ulundi Municipality during the audit is sincerely appreciated.

Pietermaritzburg

30 November 2009



Auditing to build public confidence

" The City of Heritage "



ULUNDI MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED

30 June 2009

Annual Financial Statements

for

Ulundi Municipality

for the year ended 30 June: **2009**

Province: **KwaZulu Natal**

AFS rounding: **R (i.e. only cents)**

Contact Information:

| | |
|----------------------------|--------------|
| Name of Municipal Manager: | SA Buthelezi |
|----------------------------|--------------|

| | |
|----------------------------------|-----------------------|
| Name of Chief Financial Officer: | JH Mhlongo |
| Contact telephone number: | 035-8745102 |
| Contact e-mail address: | tmagwaza@ulundi.co.za |

| | |
|---|------------------------------|
| Name of contact at provincial treasury: | Leneo Mofaka |
| Contact telephone number: | 033-8974423 |
| Contact e-mail address: | Leneo.mofaka@treasury.gov.za |

| | |
|---------------------------|------------------------------|
| Name of relevant Auditor: | Auditor-General South Africa |
| Contact telephone number: | 033-2647400 |
| Contact e-mail address: | johnnys@agsa.co.za |

| | |
|---------------------------------------|--------------------------------|
| Name of contact at National Treasury: | Unathi Ndobeni |
| Contact telephone number: | 012-3155103 |
| Contact e-mail address: | Unathi.ndobeni@treasury.gov.za |

Ulundu Municipality
Annual Financial Statements
for the year ended 30 June 2009

General information

Members of the Council

| | |
|--------------------|-----------------------------------|
| M J. Luthuli | Mayor |
| RV Sibya | Speaker |
| PATN Buthelezi | Member of the Executive Committee |
| MA Sibya | Member of the Executive Committee |
| MS Mhlongo | Member of the Executive Committee |
| B Nxumalo | Member of the Executive Committee |
| MB Khali | Member of the Executive Committee |
| PM Ndwandwe | Member of the Executive Committee |
| HJ Mlambo | Member of the Executive Committee |
| N R Magwaza | Member of the Executive Committee |
| BM Buthelezi | Member |
| BN Buthelezi | Member |
| BS Khanyile | Member |
| CR Khumalo | Member |
| DM Zwane | Member |
| EM Hlope | Member |
| ET Tshabalala | Member |
| FL Buthelezi | Member |
| FP Ntanzi | Member |
| HJ Mlambo | Member |
| I Kunene | Member |
| JM Khanyile | Member |
| JT Gasa | Member |
| KL Sibya | Member |
| KV Ndlela | Member |
| LL Buthelezi | Member |
| LN Shandu | Member |
| LNZ Buthelezi | Member |
| MN Msibi | Member |
| MW Sikhakhane | Member |
| MW Sithole | Member |
| MZ Mafambani | Member |
| NM Mhlongo | Member |
| RM Ndlovu | Member |
| S Mlambo (Khumalo) | Member |
| SG Jali | Member |
| SG Magwaza | Member |
| SM Buthelezi | Member |
| SR Shwala | Member |
| SV Zondo | Member |
| SW Kkhize | Member |
| TJ Manqele | Member |
| TM Zungu | Member |
| VP Langa | Member |
| ZM Langa | Member |
| ZP Dlamuka | Member |

Municipal Manager

Princess S A Buthelezi

Chief Financial Officer

J H Mhlongo

Grading of Local Authority

Low Capacity

Auditors

Auditor-General South Africa

Bankers

First National Bank

Ulundi Municipality
Annual Financial Statements
for the year ended 30 June 2009

General information (continued)

Registered Office: Cnr Princess Magogo & King Zwelithini Roads, Ulundi

Physical address:

Cnr Princess Magogo & King Zwelithini street,
Ulundi,
3838

Postal address: Private Bag X17

Ulundi
3838

Telephone number: +27 35 874 5100 | +27 35 874 5800

Fax number: +27 35 870 3506

E-mail address: Info@ulundi.co.za

Ulundi Municipality
ANNUAL FINANCIAL STATEMENTS
For the year ended 30 June 2009

Approval of annual financial statements

I am responsible for the preparation of these annual financial statements, which are set out on pages 6 to 30, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.
I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 24 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Princess S A Buthelezi
Municipal Manager

DATE 30 November 2009

Ulundi Municipality
ANNUAL FINANCIAL STATEMENTS
For the year ended 30 June 2009

| Index | Page |
|--|-------|
| Statement of Financial Position | 7 |
| Statement of Financial Performance | 8 |
| Statement of Changes in Net Assets | ■ |
| Cash Flow Statement | 10 |
| Summary of Significant Accounting Policies | 11-16 |
| Notes to the Annual Financial Statements | 17-30 |
| Appendix A: Schedule of External Loans | 31 |
| Appendix B: Analysis of Property, Plant and Equipment | 32-33 |
| Appendix C: Segmental Analysis of Property, Plant and Equipment | 34 |
| Appendix D: Segmental Statement of Financial Performance | 35 |
| Appendix E(1): Actual versus Budget (Revenue and Expenditure) | 38 |
| Appendix E(2): Actual versus Budget (Acquisition of Property, Plant and Equipment) | 37 |
| Appendix F: Disclosures of Grants and Subsidies in Terms of the Municipal Finance Management Act | 38 |

Ulundi Municipality
STATEMENT OF FINANCIAL POSITION
as at 30 June 2009

| | Note | 2009 R | 2008 R |
|--|------|--------------------|--------------------|
| ASSETS | | | |
| Current assets | | 40,444,260 | 41,635,247 |
| Cash and cash equivalents | 1 | 10,160,553 | 11,987,398 |
| Trade receivables | 2 | 26,353,440 | 25,135,542 |
| Other receivables | 4 | 1,100,756 | 1,034,125 |
| Inventories | 5 | 896,765 | 1,088,783 |
| Investments | 6 | 140,000 | 140,000 |
| Current portion of non current receivables | 7 | 35,572 | 35,572 |
| VAT receivable | 12 | 1,757,174 | 2,213,827 |
| Non-current assets | | | |
| Property, plant and equipment | 8 | 100,731,869 | 97,263,770 |
| Investment Property | 9 | 5,915,000 | - |
| Total assets | | 147,091,129 | 138,899,017 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 10 | 16,690,748 | 14,581,575 |
| Consumer deposits | 11 | 1,272,240 | 682,534 |
| Current provisions | 13 | 395,000 | - |
| Bank overdraft | 1 | - | 363,562 |
| Unspent conditional grants and receipts | 14 | 14,872,005 | 12,941,549 |
| Current portion of borrowings | 15 | - | 937,500 |
| Total liabilities | | 33,229,993 | 29,506,720 |
| Net assets | | 113,861,136 | 109,392,297 |
| NET ASSETS | | | |
| Housing Development Fund | | 50,580 | - |
| Accumulated surplus | 16 | 113,810,556 | 109,392,297 |
| Total net assets | | 113,861,136 | 109,392,297 |

Ulundi Municipality
STATEMENT OF FINANCIAL PERFORMANCE
for the year ending 30 June 2009

| | Note | 2009 R | 2008 R |
|---|------|--------------------|-------------------|
| Revenue | | | |
| Property rates | 17 | 19,189,210 | 16,766,667 |
| Property rates - penalties imposed and collection charges | 17 | 7,037,191 | 6,303,069 |
| Service charges | 18 | 22,378,664 | 17,813,400 |
| Rental of facilities and equipment | 19 | 197,033 | 181,117 |
| Interest earned - external investments | 20 | 1,627,740 | 1,920,261 |
| Fines | | 280,330 | 237,447 |
| Licences and permits | | 716,104 | - |
| Government grants and subsidies | 21 | 52,815,761 | 39,761,339 |
| Other income | 22 | 34,677 | 25,621 |
| Total revenue | | 104,276,710 | 83,008,921 |
| Expenses | | | |
| Employee related costs | 23 | 35,397,753 | 33,117,108 |
| Remuneration of councillors | 24 | 9,129,459 | 8,379,293 |
| Bad debts | | 7,936,213 | 4,030,307 |
| Depreciation and amortisation expense | 25 | 6,530,061 | 7,481,024 |
| Repairs and maintenance | | 1,820,615 | 2,037,524 |
| Interest paid | 26 | 32,768 | 148,222 |
| Bulk purchases | 27 | 17,427,787 | 12,629,206 |
| Contracted services | 28 | 8,777,792 | 5,615,290 |
| General expenses | 29 | 14,728,670 | 12,255,066 |
| Total expenses | | 101,781,118 | 85,693,040 |
| Gain on sale of land | 30 | 1,922,667 | 4,060,515 |
| Surplus for the period | | 4,418,259 | 1,376,396 |

Ulundti Municipality
STATEMENT OF CHANGES IN NET ASSETS
as at 30 June 2009

| | Capital Replacement Reserve | Capitalisation Reserve | Government Grant Reserve | Housing Development Fund | Accumulated Surplus | Total: Net Assets |
|--|--|-----------------------------------|-------------------------------------|---|--------------------------------|------------------------------|
| | R | R | R | R | R | R |
| Balance at 1 July | | | | | | |
| Adjust assets to agree to asset register | | | | | | |
| Depreciation 2006/2007 | | | | | | |
| Prior year adjustment | | | | | | |
| Offsetting depreciation | | | | | | |
| Surplus / (deficit) for the period | | | | | | |
| Balance at 30 June | 2007 | 3,948,719 | 7,300,994 | 9,287,438 | - | 27,796,069 |
| Transfers to accumulated surplus | | | | | | |
| Housing Grant Received | | | | | | |
| Surplus / (deficit) for the period | 2008 | (3,948,719) | (8,389,550) | (84,307,114) | - | 109,392,297 |
| Balance at 30 June | 2009 | - | - | - | 50,580 | 113,861,136 |
| | | | | | | |

Ulundi Municipality
CASH FLOW STATEMENT
as at 30 June 2009

| | Note | 2009 R | 2008 R |
|---|------|---------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash receipts from consumers | | 99,751,410 | 76,688,809 |
| Cash paid to suppliers and employees | | (88,471,377) | (78,339,286) |
| Cash generated from operations | 31 | 11,280,033 | (1,650,477) |
| Interest received | | 1,627,740 | 1,920,261 |
| Interest paid | | (32,768) | (148,222) |
| Net cash flows from operating activities | | 12,875,005 | 121,562 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of fixed assets | | (15,913,160) | (10,701,172) |
| Proceeds from sale of fixed assets | | 1,922,667 | 4,060,515 |
| Net cash flows from investing activities | | (13,990,493) | (6,640,657) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Loans (repaid) | | (937,500) | (1,562,500) |
| Increase/(Decrease) in consumer deposits | | 589,706 | (303,702) |
| Net cash flows from financing activities | | (347,794) | (1,866,202) |
| Net increase / (decrease) in net cash and cash equivalents | | (1,463,282) | (8,385,297) |
| Net cash and cash equivalents at beginning of period | | 11,623,836 | 20,009,133 |
| Net cash and cash equivalents at end of period | 32 | 10,160,554 | 11,623,836 |

Ulundti Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2009

1 BASIS OF ACCOUNTING

1.1 BASIS OF PRESENTATION

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

These annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

The principal accounting policies adopted in the preparation of these annual financial statements are set out below.

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy.

The municipality has taken advantage of certain of the transitional provisions of Directive 4 which is available to low capacity municipalities for the year ended June 30, 2009. The application of these transitional provisions is detailed in each policy to which the Directive applies.

1.2 PRESENTATION CURRENCY

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.3 GOING CONCERN ASSUMPTION

These annual financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

1.4 COMPARATIVE INFORMATION

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET

1.5 EFFECTIVE

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

GRAP 18 Segment Reporting

GRAP 21 Impairment of Non-Cash Generating assets

GRAP 23 Revenue from Non-Exchange Transactions (Taxes and Transfers)

GRAP 24 Presentation of Budget Information in Financial Statements

GRAP 26 Impairment of Cash Generating Assets

GRAP 103 Heritage Assets

GRAP 104 Financial Instruments

The following standards, amendments to standards and interpretations have been issued but are not yet

IAS 19 Employee Benefits

IFRIC 17 Distribution of Non-cash Assets to Owners

IFRIC 18 Transfer of Assets from Customers

Ulundu Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2009

2 PROPERTY, PLANT AND EQUIPMENT
2.1 INITIAL RECOGNITION

The Municipality has taken advantage of certain of the transitional provisions of Directive 4 which is available to low capacity municipalities for the year ended June 30, 2009. Property, Plant and equipment are therefore not measured in accordance with GRAP 17 or the accounting policy. A "provisional" amount has been determined by management, which will be used until the GRAP 17 measurement process is completed. It is anticipated that this process will be complete by June 30, 2010.

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, deemed cost is the carrying amount of the asset(s) given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

2.2 SUBSEQUENT MEASUREMENT - COST MODEL

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

2.3 DEPRECIATION AND IMPAIRMENT

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

| Infrastructure | | Other | |
|-------------------------|-------|-------------------------|----|
| Roads and Paving | 10-20 | Buildings | 30 |
| Pedestrian Malls | 30 | Air Conditioners | 7 |
| Electricity | 25 | Vehicles and tractors | 7 |
| Water | 20 | Office equipment | 5 |
| Sewerage | 20 | Furniture and fittings | 10 |
| Community | | Machinery and Equipment | 7 |
| Buildings | 30 | Tools | 5 |
| Recreational Facilities | 10 | Radio | ■ |
| | | Computer equipment | ■ |

The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

2.4 DERECOGNITION

Items of Property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

Uiundi Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2009

3 INVESTMENT PROPERTY

3.1 INITIAL RECOGNITION

The Municipality has taken advantage of certain of the transitional provisions of Directive 4 which is available to low capacity municipalities for the year ended June 30, 2009 .Investment property has therefore not been measured in accordance with GRAP 16 or the accounting policy : A "provisional" amount has been determined by management, which will be used until the GRAP 16 measurement process is completed. It is anticipated that this process will be complete by June 30, 2010.

Investment property includes property (land or a building, or part of a building, or both land or buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

3.2 SUBSEQUENT MEASUREMENT - COST MODEL

Investment property is measured using the cost model. Under the cost model, investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. Land is not depreciated.

4 INVENTORIES

4.1 INITIAL RECOGNITION

The Municipality has taken advantage of certain of the transitional provisions of Directive 4 which is available to low capacity municipalities for the year ended June 30, 2009 .Inventories have therefore not measured in accordance with GRAP 12 or the accounting policy . A "provisional" amount has been determined by management, which will be used until the GRAP 12 measurement process is completed. It is anticipated that this process will be complete by June 30, 2010.

Inventories comprise current assets held for consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

4.2 SUBSEQUENT MEASUREMENT

Inventories, consisting of consumable stores, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down in this way. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

In general, the basis of allocating cost to inventory items is the first-in, first-out method

Ulundi Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2009

5 FINANCIAL INSTRUMENTS

5.1 INITIAL RECOGNITION

Financial instruments are initially recognised at fair value.

5.2 SUBSEQUENT MEASUREMENT

Financial Assets are categorised according to their nature as either financial assets at fair value through profit or loss, held-to-maturity, loans and receivables, or available for sale. Financial liabilities are categorised as either at fair value through profit or loss or financial liabilities carried at amortised cost ("other"). The subsequent measurement of financial assets and liabilities depends on this categorisation and, in the absence of an approved GRAP Standard on Financial Instruments, is in accordance with IAS 39.

5.3 INVESTMENTS

Investments, which include short-term deposits invested in registered commercial banks, are categorised as either held-to-maturity where the criteria for that categorisation are met, or as loans and receivables, and are measured at amortised cost. Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified. Impairments are calculated as being the difference between the carrying amount and the present value of the expected future cash flows flowing from the instrument. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

5.4 TRADE AND OTHER RECEIVABLES

Trade and other receivables are categorised as financial assets: loans and receivables and are initially recognised at fair value and subsequently carried at amortised cost. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. Impairments are determined by discounting expected future cash flows to their present value. Amounts that are receivable within 12 months from the reporting date are classified as current.

An impairment of trade receivables is accounted for by reducing the carrying amount of trade receivables through the use of an allowance account, and the amount of the loss is recognised in the Statement of Financial Performance within operating expenses. When a trade receivable is uncollectible, it is written off. Subsequent recoveries of amounts previously written off are credited against operating expenses in the Statement of Financial Performance.

5.5 TRADE PAYABLES AND BORROWINGS

Financial liabilities consist of trade payables and borrowings. They are categorised as financial liabilities held at amortised cost, are initially recognised at fair value and subsequently measured at amortised cost which is the initial carrying amount, less repayments, plus interest.

5.6 CASH AND CASH EQUIVALENTS

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities: other financial liabilities carried at amortised cost.

Ulundi Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2009

6 UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

7 IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

8 FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

9 PROVISIONS

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

10 LEASES

10.1 MUNICIPALITY AS LESSEE

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are accrued on a straight-line basis over the term of the relevant lease.

10.2 MUNICIPALITY AS LESSOR

Under a finance lease, the municipality recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease instalments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to derecognition and impairment of financial instruments are applied to lease receivables.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Ulundu Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2009

11 REVENUE

11.1 REVENUE FROM EXCHANGE TRANSACTIONS

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered, the value of which approximates the consideration received or receivable.

Service charges relating to electricity are based on consumption. Meters are read on a quarterly basis and are recognised as revenue when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. The estimates of consumption between meter readings are based on normal consumption.

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse containers per property.

Interest revenue is recognised on a time proportion basis.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licences and permits.

11.2 REVENUE FROM NON-EXCHANGE TRANSACTIONS

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis.

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with an estimate of spot fines and summonses that will be received based on past experience of amounts collected.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the municipality. Where public contributions have been received but the municipality has not met the related conditions, a deferred income (liability) is recognised.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the municipality.

Revenue from the recovery of unauthorised fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

11.3 GRANTS, TRANSFERS AND DONATIONS

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

12 BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

13 RETIREMENT BENEFITS

The municipality provides retirement benefits for its employees and councillors. The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. The defined benefit funds, which are administered on a provincial basis, are actuarially valued triennially on the projected unit credit method basis. Deficits identified are recognised as a liability and are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities. Specific actuarial information in respect of individual participating municipalities is unavailable due to centralised administration of these funds. As a result, defined benefit plans have been accounted for as if they were defined contribution plans. Refer to note 38 for details of the fund.

Ulundi Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2009

| 2009 R | 2008 R |
|-----------|-----------|
|-----------|-----------|

1 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

| | | |
|---------------|-----------|------------|
| Cash on hand | 1,000 | 1,000 |
| Cash at bank | 1,455,124 | (190,753) |
| Call deposits | 8,704,429 | 11,813,589 |
| | <hr/> | <hr/> |

Bank overdraft included in above

| | |
|--|---------|
| | 363,562 |
| | <hr/> |

The Municipality has the following bank accounts: -

Current Account (Primary Bank Account)

First National Bank - Ulundi. 62035267609

| | | |
|---|-----------|-----------|
| Cash book balance at beginning of year | (363,562) | 275,488 |
| Cash book balance at end of year | <hr/> | 1,432,559 |
| | (363,562) | <hr/> |
| Bank statement balance at beginning of year | 348,251 | 378,292 |
| Bank statement balance at end of year | <hr/> | 3,226,898 |
| | 348,251 | <hr/> |

Current Account (Other Account)

First National Bank - Westville Branch: 6208925531

| | | |
|---|---------|---------|
| Cash book balance at beginning of year | 168,833 | 315,324 |
| Cash book balance at end of year | <hr/> | - |
| | 168,833 | <hr/> |
| Bank statement balance at beginning of year | 168,833 | 315,324 |
| Bank statement balance at end of year | <hr/> | - |
| | 168,833 | <hr/> |

This account was opened to administer receipts and payments for housing projects and is registered jointly in the name of Ulundi Municipality and Comhousing. The account was closed during the year.

Current Account (Salaries)

First National Bank - Ulundi Branch: 62033637846

| | | |
|---|-------|-------|
| Cash book balance at beginning of year | 3,976 | 2,500 |
| Cash book balance at end of year | <hr/> | 2,500 |
| | 3,976 | <hr/> |
| Bank statement balance at beginning of year | 3,976 | 2,500 |
| Bank statement balance at end of year | <hr/> | 2,500 |
| | 3,976 | <hr/> |

Credit Card account (Petrol purchases)

First National Bank - B812710030007004

| | | |
|-----------------------------|--------|-------|
| Deposits on call with banks | 19,965 | - |
| | <hr/> | <hr/> |

Cash on hand

| | | |
|---------------------------------|------------|------------|
| Total cash and cash equivalents | 10,160,553 | 11,623,836 |
| | <hr/> | <hr/> |

Total bank overdraft

Deposits on call have been reclassified from investments to cash and cash equivalents in the current year and prior year as they have a 30 day notice period.

Unutilised Conditional Grants must be ring fenced and separately invested. This was not implemented and amounts invested at year end were insufficient to cover the value of unspent conditional grants , as indicated hereunder:

| | | |
|-------------------------------|------------|------------|
| Unutilised Conditional Grants | 14,872,005 | 12,941,549 |
| Amounts invested | 8,704,429 | 11,813,589 |
| Shortfall | <hr/> | 6,167,576 |
| | 1,127,960 | <hr/> |

Ulundi Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2009

| | 2009 R | 2008 R | |
|--|-------------------|---------------------------------|-------------------|
| | Gross Balances | Provision for Doubtful Debts | Net Balance |
| 2 TRADE AND OTHER RECEIVABLES | | | |
| <u>Trade receivables</u> | | | |
| as at 30 June 2009 | | | |
| Service debtors | 18,871,628 | 14,389,681 | 4,481,947 |
| Rates | 55,511,952 | 38,430,280 | 17,081,672 |
| Electricity | 10,567,277 | 7,173,784 | 3,393,493 |
| Other | 5,221,460 | 3,825,132 | 1,396,328 |
| Total | 90,172,317 | 63,818,877 | 26,353,440 |
| as at 30 June 2008 | | | |
| Service debtors | 20,711,677 | 20,711,677 | - |
| Rates | 47,812,994 | 29,691,368 | 18,121,626 |
| Electricity | 10,937,114 | 7,862,848 | 3,074,266 |
| Other | 5,441,914 | 1,502,264 | 3,939,650 |
| Total | 84,903,699 | 59,768,157 | 25,135,542 |
| Rates: Ageing | | | |
| Current (0 – 30 days) | 1,847,898 | 1,746,363 | |
| 31 - 60 Days | 1,431,408 | 1,402,806 | |
| 61 - 90 Days | 1,848,383 | 1,286,905 | |
| 91 - 120 Days | 1,502,800 | 1,203,653 | |
| 121 days and over | 48,881,463 | 42,173,267 | |
| Total | 55,511,952 | 47,812,994 | |
| Electricity, Water and Sewerage: Ageing | | | |
| Current (0 – 30 days) | 973,846 | 751,596 | |
| 31 - 60 Days | 547,877 | 676,888 | |
| 61 - 90 Days | 463,927 | 457,916 | |
| 91 - 120 Days | 381,843 | 503,949 | |
| 121 days and over | 32,293,072 | 34,700,356 | |
| Total | 34,660,365 | 37,090,705 | |
| Total - rates and service charges | 90,172,317 | 84,903,699 | |
| The outstanding property rates balance included an amount of R 10,974,218 in respect of Ingonyama Trust Land. The recovery of these rates is uncertain and has been referred to Council to consider the write off thereof. | | | |
| 3 Doubtful debt provision | | | |
| Balance at beginning of the year | 59,768,157 | 57,005,155 | |
| Contributions to provision | 7,936,213 | 4,030,307 | |
| Doubtful debts written off against provision | (3,885,493) | (1,267,305) | |
| Balance at end of year | 63,818,877 | 59,768,157 | |
| Trade and other receivables past due but not impaired | | | |
| Trade and other receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2009, R4,291,595 (2008: R3,824,515) were past due but not impaired. | | | |
| The ageing of amounts past due but not impaired is as follows: | | | |
| 1 month past due | 31-60 | 1,979,285 | 2,079,694 |
| 2 months past due | 61-90 | 2,312,310 | 1,744,821 |
| | | 4,291,595 | 3,824,515 |
| No government debts has been provided for in the above amount. | | | |
| Trade and other receivables impaired | | | |
| As of 30 June 2009, trade and other receivables of R63,818,877 (2008: R 59,768,157) were impaired and provided for. | | | |
| The ageing of these receivables is as follows: | | | |
| Past due - 90 days | 1,884,643 | 1,707,602 | |
| Over 3 months past due - 120 days and more | 81,174,535 | 76,873,623 | |
| | 83,059,178 | 76,581,225 | |
| The fair value of trade and other receivables approximates their carrying amounts. | | | |

Ulundi Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2009

| | 2009 R | 2008 R |
|---|------------------|------------------|
| 4 OTHER RECEIVABLES | | |
| Insurance claims | 62,412 | 62,412 |
| Other debtors | <u>2,294,634</u> | <u>2,228,003</u> |
| | <u>2,357,046</u> | <u>2,290,415</u> |
| Less Provision for Doubtful Debts | 1,256,290 | 1,256,290 |
| Total Other Debtors | <u>1,100,756</u> | <u>1,034,125</u> |
| 5 INVENTORIES | | |
| Consumable stores at cost | <u>896,765</u> | <u>1,088,783</u> |
| Inventory to the value of R341,155 was written off in the current year (R NIL 2008) | | |
| 6 INVESTMENTS | | |
| <u>Financial Instruments</u> | <u>140,000</u> | <u>140,000</u> |
| Call deposits | <u>140,000</u> | <u>140,000</u> |
| The New Republic Bank went into liquidation and was placed under curatorship. The value of this investment has been written down to its estimated net realisable value. | | |
| Call investments have been reclassified as cash and cash equivalents as per note 1. | | |
| 7 NON-CURRENT RECEIVABLES | | |
| Car loans | <u>35,572</u> | <u>35,572</u> |
| The entire amount is regarded as a current portion | | |
| These loans have been discontinued in accordance with the provisions of the Municipal Finance Management Act. This balance relates to an amount due by a former employee. This debt has been handed over to the Lawyers for collection. | | |

Ukundi Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2009

8 PROPERTY, PLANT AND EQUIPMENT
Reconciliation of Carrying Value

| | Land and Landfill Sites R | Buildings R | Infrastructure R | Community R | Other Assets R | Total R |
|--|---------------------------------|---------------------------|-----------------------------|--------------------------|----------------------------|-----------------------------|
| as at 1 July 2008 | | | | | | |
| Cost/Revaluation | 5,941,137 | 20,078,000 | 67,452,577 | 1,944,239 | 1,847,817 | 97,263,770 |
| Accumulated depreciation and impairment losses | 5,967,206 (26,069) | 28,717,079 (8,639,079) | 113,022,102 (45,569,525) | 3,544,031 (1,599,792) | 12,742,196 (10,894,379) | 163,992,614 (66,728,844) |
| Acquisitions | - | - | - | - | - | - |
| Capital under Construction | - | 2,140,619 | 4,125,102 | 959,074 | 465,124 | 7,689,919 |
| Depreciation | (1,307) | (1,191,362) | 3,733,700 (4,551,680) | 4,489,541 (392,247) | - | 8,223,241 |
| Reclassification to Investment Property | (5,915,000) | - | - | - | (393,464) | (6,530,060) |
| as at 30 June 2009 | | | | | | |
| Cost/Revaluation | 24,830 | 21,027,257 | 70,759,703 | 7,000,607 | 1,919,472 | 100,731,869 |
| Accumulated depreciation and impairment losses | 24,830 - | 30,857,698 (9,830,441) | 120,880,908 (50,121,205) | 8,992,646 (1,992,039) | 13,207,315 (11,287,843) | 173,963,397 (73,231,528) |

Refer to Appendix B for more detail on property, plant and equipment

Land has been reclassified as investment property in accordance with GRAP 16 as the properties have an undetermined future use.

for the year ended 30 June 2008

| | Land R | Buildings R | Infrastructure R | Community R | Other Assets R | Total R |
|--|-----------------------|---------------------------|-----------------------------|--------------------------|----------------------------|-----------------------------|
| as at 1 July 2007 | | | | | | |
| Cost/Revaluation | 5,941,137 | 18,473,771 | 65,003,607 | 2,326,324 | 2,298,784 | 94,043,623 |
| Accumulated depreciation and impairment losses | 5,967,206 (26,069) | 26,622,129 (8,148,358) | 104,448,775 (39,445,168) | 3,511,136 (1,184,812) | 12,949,867 (10,651,083) | 153,499,113 (59,455,490) |
| Acquisitions | - | - | - | - | - | - |
| Capital under Construction | 2,094,950 | 7,938,461 | - | - | - | 10,033,411 |
| Depreciation | - | 634,866 | 32,895 | - | - | 667,761 |
| as at 30 June 2008 | | | | | | |
| Cost/Revaluation | 5,941,137 | 20,078,000 | 67,452,577 | 1,944,239 | 1,847,817 | 97,263,770 |
| Accumulated depreciation and impairment losses | 5,967,206 (26,069) | 28,717,079 (8,639,079) | 113,022,102 (45,569,525) | 3,544,031 (1,599,792) | 12,742,196 (10,894,379) | 163,992,614 (66,728,844) |

Ulundi Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2009

| | 2009 R | 2008 R |
|--------------------------------|-----------|-----------|
| 9 INVESTMENT PROPERTIES | | |

Investment property

| | | |
|--|-----------|--|
| 9.1 Reconciliation of carrying value | | |
| as at beginning of the year | 5,915,000 | |
| Reclassification from Property, plant, and equipment | - | |
| as at the end of the year | 5,915,000 | |

Investment properties consist of land which has an undetermined use and has been reclassified from Property, Plant and Equipment.

In terms of Directive 4, these properties have been recorded at a 'provisional' amount in the current year.

9.2 Details of property

Investment property

| <u>Area</u> | <u>Number of Properties</u> |
|----------------|-----------------------------|
| MPUNGAMHLOPE A | 168 |
| ULUNDI A | 197 |
| ULUNDI B | 563 |
| ULUNDI SA | 8 |
| ULUNDI C | 473 |
| ULUNDI D | 69 |
| ULUNDI L | 1 |
| ZONDELA | 376 |
| | <u>1,875</u> |

10 TRADE AND OTHER PAYABLES

| | | |
|------------------------------|-------------------|-------------------|
| Trade creditors | 5,772,113 | 4,189,440 |
| Payments received in advance | 2,400,896 | 2,267,400 |
| Retention | 1,470,252 | |
| Staff leave accrual | 3,067,584 | 3,263,280 |
| Deposits other | 63,384 | 62,078 |
| Land Sales Suspense | 857,026 | 1,270,426 |
| VAT accrual | 2,906,443 | 3,161,702 |
| Other payables | 122,990 | 367,239 |
| Total creditors | <u>16,690,748</u> | <u>14,581,575</u> |

The fair value of trade and other payables approximates their carrying amounts.

The land sales suspense account represents deposits and instalments paid by the purchaser towards the purchase price of land sold by the municipality. These amounts are transferred to income once the purchases price on a property has been paid in full.

11 CONSUMER DEPOSITS

| | | |
|-------------|-----------|---------|
| Electricity | 1,272,240 | 682,534 |
| | | |

12 VAT RECEIVABLE

| | | |
|--|--|--|
| VAT is accounted for on the receipts basis | | |
| | | |

13 PROVISIONS

395,000

Performance bonuses for Section 57 Employees were provided for as outlined in the "Performance Regulations" promulgated by the Department of Provincial and Local Government on the 1st August 2006.

The movement in current provisions are reconciled as follows:-

| | | |
|---------------------------------|----------------|--|
| as at the beginning of the year | 395,000 | |
| Contributions to provision | - | |
| Expenditure incurred | - | |
| as at the end of the year | <u>395,000</u> | |

Page 20

Ulundu Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2009

| 2009 R | 2008 R |
|-----------|-----------|
|-----------|-----------|

14 UNSPENT CONDITIONAL GRANTS AND RECEIPTS

14.1 Unspent Conditional Grants from other spheres of Government

| | | |
|---|-------------------|-------------------|
| Conditional grants from other spheres of government | 14,872,005 | 12,824,442 |
| 14.2 Other Unspent Conditional Receipts Public contributions | - | 117,105 |
| Total Unspent Conditional Grants and Receipts | 14,872,005 | 12,941,547 |

Refer Appendix F for further details covering movements in these grants.

15 BORROWINGS

| | | |
|---|----------|----------------|
| External loans | - | 937,500 |
| Less - Current portion transferred to current liabilities | - | 937,500 |
| Total borrowings | - | 937,500 |

Refer to Appendix A for more detail on borrowings.

16 ACCUMULATED SURPLUS

| | | |
|---------------------------|--------------------|--------------------|
| Surplus for the year | 4,418,259 | 1,376,396 |
| Other accumulated surplus | 109,392,297 | 108,015,901 |
| Total | 113,810,556 | 109,392,297 |

The following internal reserves are ring fenced within the Accumulated Surplus:

| | | |
|---|-------------|-------------|
| Capital Replacement Reserve | 2,859,357 | 3,948,719 |
| Balance as at 30 June 2008 | (465,787) | (1,066,362) |
| Property, Plant, and Equipment purchased ex Capital Replacement Reserve | (2,393,570) | - |
| Capital Replacement Reserve written back | - | - |
| Balance as at 30 June 2009 | 2,859,357 | - |

| | | |
|---|-------------|-------------|
| Government Grant Reserve | 86,743,166 | 84,307,114 |
| Balance as at 30 June 2008 | 16,097,373 | 9,611,808 |
| Capital grants used to finance Property, Plant, and Equipment | (6,119,079) | (7,175,757) |
| Offsetting of Depreciation | 96,721,480 | 86,743,166 |
| Balance as at 30 June 2009 | - | - |

| | | |
|----------------------------|-----------|------------|
| Capitalisation Reserve | 8,234,695 | 8,389,550 |
| Balance as at 30 June 2008 | (298,160) | (154,855) |
| Offsetting of Depreciation | 7,936,535 | 8,234,695 |
| Balance as at 30 June 2009 | 9,152,561 | 11,885,079 |

Other Accumulated Reserves

17 PROPERTY RATES

| | | |
|---|-------------------|-------------------|
| <u>Actual</u> | | |
| Residential | 5,888,266 | 5,278,336 |
| Commercial | 3,386,460 | 3,074,873 |
| State | 9,904,484 | 8,413,458 |
| Total property rates | 19,189,210 | 16,766,667 |
| Property rates - penalties imposed and collection charges | 7,037,181 | 6,303,069 |
| Total | 26,226,401 | 23,069,736 |

Valuations

| | | |
|----------------------------------|-------------------|-------------------|
| Residential | 40,583,900 | 40,987,050 |
| Commercial | 16,126,000 | 15,459,000 |
| State | 19,920,300 | 19,447,000 |
| Municipal | 1,863,450 | 3,661,700 |
| Inqonyama Trust | 11,121,150 | 14,290,450 |
| Non-Rateable | 1,310,500 | 1,444,500 |
| Total Property Valuations | 90,725,300 | 94,889,700 |

Valuations on land and buildings are performed every four years. The latest valuation was completed on 1st January 2009, and came into effect on 1 July 2009. Interim valuations are processed on a quarterly basis to take into account changes in individual property values due to alterations.

The following are the rate randages that were applied to the valuations in respect of the various categories:

- Domestic and commercial R 00.21
- Public Works R 00.6385

Rebates of 40 % are granted to residential owners and 20 % to state property owners. Rates are levied on an annual basis on property owners.

All registered indigents receive a monthly subsidy of R 00.21 for rates, this subsidy is funded from the equitable share grant.

Ulundu Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2009

| | 2009 R | 2008 R |
|---|-------------------|-------------------|
| 18 SERVICE CHARGES | | |
| Sale of electricity | 18,701,965 | 14,894,730 |
| Other | 905,435 | 382,774 |
| Refuse removal | 2,771,264 | 2,535,896 |
| Total Service Charges | 22,378,664 | 17,813,400 |
| 19 RENTAL OF FACILITIES | | |
| Rental of facilities | 197,033 | 181,117 |
| Total rentals | 197,033 | 181,117 |
| 20 INTEREST EARNED - EXTERNAL INVESTMENTS | | |
| Bank | 1,627,740 | 1,920,281 |
| Total interest | 1,627,740 | 1,920,281 |
| 21 GOVERNMENT GRANTS AND SUBSIDIES | | |
| Equitable share | 35,008,098 | 27,285,411 |
| Conditional Grants utilised | 17,807,561 | 12,144,068 |
| Other Government Grants and Subsidies | 102 | - |
| Housing grant | - | 321,860 |
| Total Government Grant and Subsidies | 52,815,761 | 39,761,339 |
| 21.1 Equitable Share | | |
| In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. All registered indigents receive a monthly subsidy of R 00.21 for rates, which is funded from the grant. | 35,008,098 | 27,285,768 |
| 21.2 MIG Grant | | |
| Balance unspent at beginning of year | 3,263,164 | 3,510,521 |
| Current year receipts | 12,394,000 | 6,228,535 |
| Conditions met - transferred to revenue | 12,487,593 | 6,475,892 |
| Conditions still to be met - remain liabilities (see note 14) | 3,169,571 | 3,263,164 |
| <i>Provide explanations of conditions still to be met and other relevant</i> | | |
| 21.3 Other Government Grants and Subsidies | | |
| Balance unspent at beginning of year | 9,678,383 | 7,592,287 |
| Current year receipts | 7,344,019 | 7,754,284 |
| Conditions met - transferred to revenue | 5,319,968 | 5,668,178 |
| Conditions still to be met - remain liabilities (see note 14) | 11,702,434 | 9,678,383 |
| 22 OTHER INCOME | | |
| Other income | 34,677 | 25,621 |
| Recovery of fruitless and wasteful expenditure (Note 34) | 34,677 | 25,621 |
| Total Other Income | 34,677 | 25,621 |

Page 22

Ulundu Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2009

| | 2009 R | 2008 R | |
|---|--------------------------|-------------------------|-------------------------|
| 23 EMPLOYEE RELATED COSTS | | | |
| Employee related costs - Salaries and Wages | 22,355,676 | 21,013,816 | |
| Employee related costs - Contributions for UIF, pensions and medical aids | 8,164,669 | 7,473,612 | |
| Travel, motor car, accommodation, subsistence and other allowances | 1,742,313 | 1,585,901 | |
| Housing benefits and allowances | - | 108,818 | |
| Overtime payments | 862,038 | 1,439,172 | |
| Performance and other bonuses | 395,000 | - | |
| Other employee related costs | 1,878,057 | 1,485,789 | |
| Total Employee Related Costs | 35,397,753 | 33,117,108 | |
| | | | |
| Remuneration of the Municipal Manager | | | |
| Annual Remuneration | 458,782 | 590,250 | |
| Performance- and other bonuses | 98,000 | - | |
| Travel, motor car, accommodation, subsistence and other allowances | 89,444 | 80,217 | |
| Contributions to UIF, Medical and Pension Funds | 60,726 | - | |
| Total | 708,952 | 670,467 | |
| | | | |
| Remuneration of the Chief Finance Officer | | | |
| Annual Remuneration | 199,245 | 480,255 | |
| Performance- and other bonuses | 74,000 | - | |
| Travel, motor car, accommodation, subsistence and other allowances | 56,539 | 48,924 | |
| Contributions to UIF, Medical and Pension Funds | 67,940 | - | |
| Total | 397,724 | 626,179 | |
| | | | |
| Remuneration of Individual Executive Directors | | | |
| | Protection Services R | Corporate Services R | Community Services R |
| 2009 | | | |
| Annual Remuneration | 199,245 | 291,861 | 291,861 |
| Performance- and other bonuses | 74,000 | 74,000 | 74,000 |
| Travel, motor car, accommodation, subsistence and other allowances | 56,539 | 78,537 | 78,537 |
| Contributions to UIF, Medical and Pension Funds | 67,940 | 90,586 | 90,586 |
| Total | 397,724 | 534,784 | 534,784 |
| 2008 | | | |
| Annual Remuneration | 55,681 | 340,891 | 340,891 |
| Performance- and other bonuses | - | - | - |
| Travel, motor car, accommodation, subsistence and other allowances | 13,063 | 87,991 | 87,991 |
| Contributions to UIF, Medical and Pension Funds | - | 83,644 | 83,644 |
| Total | 68,744 | 512,526 | 512,526 |
| 24 REMUNERATION OF COUNCILLORS | | | |
| Mayor | 501,733 | 208,040 | - |
| Deputy Executive Mayor | 430,942 | 402,175 | - |
| Speaker | 430,942 | 401,177 | - |
| Executive Committee Members | 1,488,605 | 1,519,792 | - |
| Councillors | 6,277,237 | 5,848,109 | - |
| Total Councillors' Remuneration | 9,129,459 | 8,379,293 | - |
| | | | |
| In-kind Benefits | | | |
| The Executive Mayor, Deputy Mayor, and the Speaker and Executive Committee Members are provided with an office and secretarial support at the cost of the Council | | | |
| The Mayor has use of the Council owned vehicle for official duties. | | | |

Ulundu Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2009

| | 2009 R | 2008 R |
|---|-------------------|-------------------|
| 25 DEPRECIATION AND AMORTISATION EXPENSE | | |
| Property, plant and equipment | 6,530,061 | 7,481,024 |
| Total Depreciation and Amortisation | <u>6,530,061</u> | <u>7,481,024</u> |
| 26 INTEREST PAID | | |
| Borrowings | 32,768 | 148,222 |
| Total Interest | <u>32,768</u> | <u>148,222</u> |
| This interest paid relates to the loan received from Umsekeli Services , refer note 15 above and appendix A | | |
| 27 BULK PURCHASES | | |
| Electricity | 17,427,787 | 12,629,208 |
| Total Bulk Purchases | <u>17,427,787</u> | <u>12,629,208</u> |
| 28 CONTRACTED SERVICES | | |
| Contracted services for: | | |
| Hire of Vehicles | 1,347,168 | 850,215 |
| Professional fees | 1,557,353 | 6 483 |
| Private Security Service | 1,817,469 | 1,006 127 |
| Refuse Removal contracts | 3,314,998 | 2,311,764 |
| Software and licenses | 571,323 | 358 210 |
| Grant expenditure | 389,483 | 1,082 490 |
| | <u>8,777,792</u> | <u>5,815,290</u> |

Ulundi Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2009

| | 2009 R | 2008 R |
|--|-------------------|-------------------|
| 29 GENERAL EXPENSES | | |
| Included in general expenses are the following:- | | |
| Advertising | 162,122 | 207 192 |
| Admin fees | - | - |
| Audit fees - External | 724,674 | 799,164 |
| Audit fees - Internal | - | 486,879 |
| Bank charges | 164,625 | 190,915 |
| Brochures - Council | 1,952 | 7,753 |
| Chemicals & gasses | 6,540 | - |
| Children holiday programme | 3,177 | - |
| Civic entertainment | 58,335 | 7,799 |
| Conference fees | 15,670 | 14 527 |
| Cash handling fee | 151,086 | 64,950 |
| Commission : Sale pre-paid Electricity | 173,024 | 96 354 |
| Decorations | 11,367 | 25,500 |
| Delivery - Consumer accounts | 66,807 | 73,529 |
| Disconnection fees | 62,240 | 30,677 |
| Digging of graves | 4 000 | 21,213 |
| Entertainment / Refreshments | 126,961 | 66,291 |
| Expendable tools | 28,681 | 59,534 |
| Free basic Services - Electricity | 337,831 | 231,185 |
| Fruitless and wasteful expenses | 49,398 | 262,520 |
| Hire of equipment | 455,167 | 513,006 |
| Hire of offices | 17,617 | 64,045 |
| HIV/AIDS Projects | 7,439 | 5 008 |
| Indigent relief | 168 663 | 51 785 |
| Indigent burials | 485 868 | 405,045 |
| Insurance | 527,745 | 490,625 |
| Legal expenses | 278,447 | 231,581 |
| Library material | 43,746 | 18,540 |
| License fees | - | 199 |
| Local mayoral sports cup | 423,649 | 231,284 |
| Medical examination fees | 1,884 | 1,461 |
| Membership fees | 179,568 | 118,701 |
| Official photographs | - | 3,350 |
| Periodicals | 4,426 | 8 786 |
| Pauper burials | - | 5 875 |
| Printing and stationery | 513,796 | 219,542 |
| Promotional material | (439) | 16 062 |
| Projects tourism | 80 302 | 88,930 |
| Publicity | 36 889 | 35,177 |
| Quality Special projects/Grass cutting | 142,071 | 101,715 |
| Refuse bags | 140,718 | 92,922 |
| Repeater licence fee | 11,983 | 10,894 |
| Refuse receptacles | 7,098 | - |
| Study aid - Staff | (22,278) | 19,218 |
| Street lights | 13,516 | - |
| Small office equipment | 9,585 | 109,844 |
| Small tools | 3,572 | 209 |
| Stamps and postage | 46,834 | 50,477 |
| Stocks and material | 221,576 | 116,422 |
| Sundries | 21 949 | 74,316 |
| Telephone cost | 866,786 | 777 301 |
| Training | 89 525 | 79,127 |
| Transport claims | 1,149,913 | 1,395,320 |
| Travel and subsistence | 891,675 | 597,595 |
| Uniforms & overalls | 103,644 | 43,309 |
| Valuation costs | 2,267,148 | 49,345 |
| WCC | 225,109 | 270,601 |
| Water charges | 195,347 | 477 683 |
| Weed killers and insecticides | 10,672 | 6 165 |
| Weed killer programme | - | 6,630 |
| Ward committees | 45,475 | - |
| Grant : PMS | 210,900 | 11,146 |
| Grant : National Electrification | - | 512,098 |
| Grant MAP | - | 369,513 |
| Grant valuation roll | 6,810 | - |
| Grant . FMG | 428,282 | 548,439 |
| Grant . Community dev workers | 6,005 | 1,800 |
| Grant . Skills Development | 311 560 | 35,655 |
| Housing Grant Expenditure | 77 300 | 322,040 |
| Cash shortages | 1,202 | - |
| Contribution - Leave pay provision | 784,215 | - |
| Mayoral functions | 243,824 | 191,357 |
| Grant P/Cons HR Systems | - | 59,892 |
| Stores shortages | 341,155 | - |
| Formalise Unit M | - | 400,000 |
| Grant . LUMS | 56,088 | 47,045 |
| Grant Project Consolidate Comm Consultant | 219,465 | 133,482 |
| Grant : Municipal Governance | 125,881 | - |
| Grant Bookkeeping training | 98,788 | - |
| Other | - | 188,721 |
| | 14,728,670 | 12,255,066 |

Ullundi Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2009

| | 2009 R | 2008 R |
|---|-------------------|--------------------|
| 30 GAIN ON SALE OF LAND | | |
| Land | 1,922,667 | 4,060,515 |
| Total Gain on Sale of Land | <u>1,922,667</u> | <u>4,060,515</u> |
| 31 CASH GENERATED BY OPERATIONS | | |
| Surplus/(deficit) for the year | 4,418,259 | 1,376,398 |
| Adjustment for:- | | |
| Prior year | - | 2,991,529 |
| Depreciation and amortisation | 6,530,061 | 7,481,024 |
| (Gain) / loss on sale of assets | (1,922,667) | (4,060,515) |
| Contribution to provisions for bad debts | 4,050,720 | 4,030,308 |
| Contribution to provisions - current | 395,000 | - |
| Housing grants received | 50,580 | - |
| Finance costs | 32,768 | 148,222 |
| Interest earned | (1,627,740) | (1,920,281) |
| Operating surplus before working capital changes: | 11,926,981 | 10,046,703 |
| (increase)/decrease in inventories | 192,018 | 336,700 |
| (increase)/decrease in trade receivables | (5,265,818) | (5,202,570) |
| (increase)/decrease in other receivables | (66,631) | (1,449,660) |
| (increase)/decrease in VAT receivable | 456,653 | (2,027,594) |
| Increase/(decrease) in conditional grants and receipts | 1,930,458 | 1,838,731 |
| Increase/(decrease) in trade payables | 2,109,174 | (5,192,787) |
| Cash generated by/(utilised in) operations | <u>11,280,033</u> | <u>(1,650,477)</u> |
| 32 CASH AND CASH EQUIVALENTS | | |
| Cash and cash equivalents included in the cash flow statement comprise the following: | | |
| Bank balances and cash | 10,160,554 | 11,987,398 |
| Bank overdrafts | - | (363,562) |
| Net cash and cash equivalents (net of bank overdrafts) | <u>10,160,554</u> | <u>11,623,836</u> |
| 33 CHANGE IN ACCOUNTING POLICY | | |
| Restatement of Comparative amounts. | | |
| A reconciliation of the deficit reported in the previous year's annual financial statements to the restated comparative amounts in the Statement of Financial Performance is set out below: | | |
| Surplus previously reported | - | 3 498,882 |
| Depreciation 2008/2009 | - | (5,735,849) |
| | <u>-</u> | <u>(3,237,167)</u> |
| UNAUTHORISED FRUITLESS AND WASTEFUL EXPENDITURE | | |
| 34 DISALLOWED | | |
| Fruitless and wasteful expenditure | | |
| Reconciliation of unauthorised fruitless and wasteful expenditure | | |
| Opening balance | 884,994 | 622,474 |
| Unauthorised fruitless and wasteful expenditure current year | 45,398 | 262,520 |
| Unauthorised fruitless and wasteful expenditure awaiting authorisation | <u>930,392</u> | <u>884,994</u> |

The loss control committee will meet during the ensuing year, 2009/2010 to deal with this issue.

Ulundti Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2009

| 2009 | 2008 |
|------|------|
| R | R |

ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE
35 MANAGEMENT ACT

35.1 Contributions to organised local government

Amount paid - current

| | |
|---------|---------|
| 178,568 | 118,701 |
|---------|---------|

35.2 Audit fees

Amount paid - current year

| | |
|---------|---------|
| 724,674 | 799,164 |
|---------|---------|

35.3 VAT

Opening balance

| | |
|-----------|---------|
| 2,213,827 | 186,233 |
|-----------|---------|

Current year output vat

| | |
|-------------|-------------|
| (3,363,223) | (3,497,620) |
|-------------|-------------|

Current year input vat

| | |
|-----------|-----------|
| 6,860,323 | 4,814,071 |
|-----------|-----------|

Amount paid current year

| | |
|---|---------|
| - | 711,143 |
|---|---------|

Amount refunded by SARS - current

| | |
|-------------|---|
| (3,953,753) | - |
|-------------|---|

Amount due by SARS

| | |
|-----------|-----------|
| 1,757,174 | 2,213,827 |
|-----------|-----------|

VAT receivables and payables are shown in note 12. All VAT returns have been submitted by the due date throughout the year.

35.4 PAYE and UIF

Opening balance

| | |
|-----------|-----------|
| 4,545,354 | 4,407,960 |
|-----------|-----------|

Current year payroll deductions

| | |
|-------------|-------------|
| (4,545,354) | (4,407,960) |
|-------------|-------------|

Amount paid - current year

| | |
|---|---|
| - | - |
|---|---|

Balance

35.5 Pension and Medical Aid Deductions

Opening balance

| | |
|------------|------------|
| 13,192,845 | 11,422,621 |
|------------|------------|

Current year payroll deductions and Council Contributions

| | |
|--------------|--------------|
| (13,192,845) | (11,422,621) |
|--------------|--------------|

Amount paid - current year

| | |
|---|---|
| - | - |
|---|---|

Balance

35.6 Councillor's arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days as at:

| | Total | Outstanding less than 90 days | Outstanding more than 90 days |
|--|---------------|-------------------------------|-------------------------------|
| | R | R | R |
| as at 30 June 2009 | | | |
| CR Khumalo | 752 | 147 | ■ |
| FL Buthelezi | 6,903 | 630 | 6,273 |
| LNZ Buthelezi | 5,196 | 702 | 4,484 |
| MA Sibya | 448 | 177 | 271 |
| ZP Dlamuka | 6,527 | 147 | 6,380 |
| Total Councillor Arrear Consumer Accounts | 19,826 | 1,803 | 18,023 |

as at 30 June 2008

| | | | |
|--|--------------|--------------|---------------|
| CR Khumalo | 602 | 93 | 509 |
| LNZ Buthelezi | 4,058 | 384 | 3,664 |
| MA Sibya | 10,092 | 629 | 9,463 |
| ZP Dlamuka | 7,494 | 93 | 7,401 |
| N J Manana | 869 | 579 | 290 |
| M N Sibisi | 1,452 | 494 | 958 |
| BM Buthelezi | 393 | 393 | - |
| PATN Buthelezi | 5,004 | 93 | 4,911 |
| FP Ntanzi | 975 | 11 | 964 |
| SG Jali | 4,705 | 865 | 3,840 |
| SR Shwala | 5,404 | 506 | 4,898 |
| Total Councillor Arrear Consumer Accounts | ■■■■■ | 4,150 | 35,898 |

36 CAPITAL COMMITMENTS

Commitments in respect of capital expenditure

| | | |
|---|-------------------|-------------------|
| - Approved and contracted for | 16,425 000 | 4,832,440 |
| - Approved but not yet contracted for | 1,459,700 | 23,844,760 |
| Total | 17,884,700 | 28,677,200 |
| This expenditure will be financed from: | | |
| - Government Grants | 16,425,000 | 25,367,440 |
| - Own resources | 1,459,700 | 3,309,760 |
| | 17,884,700 | 28,677,200 |

Operating leases

At the reporting date the entity has outstanding commitments under operating leases which fall due as follows:

Operating leases - lessee

| | | |
|-----------------------|------------------|------------------|
| Within one year | 783,066 | 601,044 |
| Greater than one year | 1,766,876 | 2,550,042 |
| Total | 2,550,042 | 3,151,087 |

Operating lease payments represent amounts payable by the municipality for certain assets. All leases are negotiated for separately and rentals are fixed in terms of the lease agreement.

Ulundi Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2009

| 2009 | 2008 |
|------|------|
| R | R |

37 RETIREMENT BENEFIT INFORMATION

funds administered by the Natal Joint Municipal Pension Fund. These funds are subject to a triennial actuarial valuation. The last valuation was performed in 2008

37.1 Superannuation fund

The Fund's Actuary confirmed that, at the valuation date, the Fund was fully funded and financially sound on the DCF method.

37.2 Retirement Fund

The Fund's Actuary confirmed that, at the valuation date,
- the Memorandum account was fully funded
- the Fund's liabilities for members exceeded the value of the assets, however, it was anticipated that the surcharge of 17 % of pensionable salaries, which currently applies, will enable the shortfall to be eliminated by July 2010

37.3 Prevident Fund

The Fund's Actuary confirmed that, at the valuation date, the Fund was in a sound financial position.

38 CONTINGENT LIABILITY

Claim for damages
The following matters are currently on the roll of the high court and as at balance sheet date the following amounts represent possible liabilities, they are an estimate from the Municipality's attorneys.

| | | |
|--|------------------|------------------|
| 38.1 D.N. Nzimande on behalf of S.E. Nzimande vs Ulundi Municipality | 2,300,000 | |
| 38.2 G.M. Zondo on behalf of L.Z. Zondo vs Ulundi Municipality | 100,000 | - |
| | <u>2,400,000</u> | <u>2,400,000</u> |

The Municipality is being sued by these ratepayers for damages arising from incidents relating to electric shock injuries sustained.

39 RELATED PARTIES

| | | |
|---|------------------|------------------|
| Compensation paid to members of key management (refer note 23) | 2,573,968 | 2,273,442 |
| Compensation paid to councillors (refer note 24) | <u>9,129,459</u> | <u>6,379,283</u> |

There were no related party transactions during the 2008/2009 financial year

40 EVENTS AFTER THE REPORTING DATE

There have been no events after the reporting date that require disclosure.

41 KEY SOURCES OF ESTIMATION UNCERTAINTY AND JUDGEMENTS

No areas have involved a significant degree of estimation, uncertainty or judgements made by management in applying the municipalities accounting policies and that have a material and significant affect on the amounts recognised in the financial statements.

42 DISTRIBUTION LOSSES

The municipality incurred distribution losses on Electricity amounting to approximately 20,684,372 units , this equates to approximately 30% of total purchases . These losses are calculated as the difference between power supplies purchased from Eskom and amounts invoiced out to consumers. These losses are not incurred in connection with "Pre-paid Electricity Card" sales.

Ulundi Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2009

| | 2009 | 2008 |
|--|------|------|
| | R | R |

43 RISK MANAGEMENT

Maximum credit risk exposure

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or consumer contract, leading to financial loss. The municipality is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions.

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by EXCO

| | |
|------------|------------|
| 80,172,317 | 84,903,699 |
|------------|------------|

Credit risk from balances with banks and financial institutions is managed by the municipality's finance and management committee in accordance with the municipality's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty

| | |
|-----------|------------|
| 8,704,429 | 11,813,589 |
|-----------|------------|

Counterparty credit facilities are reviewed by MANCO on an annual basis, and may be updated throughout the year subject to approval by EXCO.

Financial assets exposed to credit risk at year end were as follows:

| | |
|--------------------------------------|-----------|
| First National Bank Call Investments | 8,704,429 |
|--------------------------------------|-----------|

These balances represent the maximum exposure to credit risk.

43.1 Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

43.2 Interest rate risk

As the municipality has no significant interest-bearing liabilities, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

44 COMPARISON WITH THE BUDGET

The comparison of the Municipality's actual financial performance with that budgeted is set out in Annexures E(1) and E(2).

45 RECLASSIFICATION

In the current year the municipality has reclassified investments of R8,704,429 (2008 R 11,813,589) from investments per note 6 to cash and cash equivalents per note 1

Irregular and unauthorised expenditure as disclosed in the prior years has in the current year been disclosed as fruitless and wasteful expenditure.

In the current year the municipality has reclassified land of R5,915,000 (2008 R5,915,000) from Property, Plant, and Equipment to Investment Property per note 9.

Ulundu Municipality

APPENDIX A

SCHEDULE OF EXTERNAL LOANS

as at 30 June 2009

| EXTERNAL LOANS | Redeemable Date | Balance at 30 June 2008 | Received during the period | Redeemed / written off during the period | Balance at 30 June 2009 |
|-----------------------------|-----------------|-------------------------|----------------------------|--|-------------------------|
| Umsekeli Services | 2009 | R 937,500 | R - | R 937,500 | R - |
| TOTAL EXTERNAL LOANS | | 937,500 | - | 937,500 | - |

Ulundi Municipality
APPENDIX B
ANALYSIS OF PROPERTY PLANT AND EQUIPMENT

as at 30 June 2009

| | 2009 | Cost / Revaluation Reclassification | | | | | | Accumulated Depreciation | | | Carrying Value R |
|-----------------------------|--------------------|--|--------------------|-------------------------------|----------------------------|-------------------------|-------------------------|--------------------------|-------------------------|-------------------|---------------------|
| | | Opening Balance R | Additions R | Investment Properties R | Under Construction R | Closing Balance R | Opening Balance R | Depreciation R | Closing Balance R | | |
| Land | | | | | | | | | | | |
| Land | 5,915,000 | - | (5,915,000) | - | - | 52,206 | (26,069) | (1,307) | (27,376) | 24,830 | |
| Refuse Disposal Site | 52,206 | - | (5,915,000) | - | - | 52,206 | (26,069) | (1,307) | (27,376) | 24,830 | |
| Buildings | 28,717,079 | 2,140,619 | - | - | - | 30,857,698 | (8,639,079) | (1,191,362) | (9,830,441) | 21,027,257 | |
| Infrastructure | | | | | | | | | | | |
| Roads | 47,688,901 | 3,784,609 | - | 3,733,700 | 55,207,210 | (22,790,678) | (1,372,757) | (24,163,435) | (31,043,775) | | |
| Sewerage | 556,189 | - | - | 556,189 | (278,094) | (27,809) | (305,903) | (250,286) | | | |
| Electrical Infrastructures | 63,081,215 | 340,493 | - | - | 63,421,708 | (21,820,569) | (3,066,324) | (24,886,893) | (38,534,815) | | |
| Water Mains & Purification | 1,136,743 | - | - | - | 1,136,743 | (568,372) | (568,372) | (625,209) | (511,534) | | |
| Robots | 559,058 | - | - | - | 559,058 | (111,812) | (27,953) | (139,765) | (419,293) | | |
| | 113,022,106 | 4,125,102 | - | 3,733,700 | 120,880,908 | (45,569,525) | (4,551,680) | (50,121,205) | (70,759,703) | | |
| Community Assets | | | | | | | | | | | |
| Sport Facilities | 1,580,398 | 695,363 | - | - | 2,275,761 | (298,288) | (79,704) | (377,992) | 1,897,769 | | |
| Taxi Rank | 1,802,799 | - | - | - | 1,802,799 | (1,246,950) | (180,280) | (1,427,230) | 375,569 | | |
| Cemeteries | 160,834 | 263,711 | - | 4,489,541 | 4,914,086 | (54,554) | (132,263) | (186,817) | 4,727,269 | | |
| | 3,544,031 | 959,074 | - | 4,489,541 | 8,992,646 | (1,599,792) | (392,247) | (1,992,039) | 7,000,607 | | |
| Other Assets | | | | | | | | | | | |
| Office & Computer Equipment | 2,739,886 | 420,402 | - | - | 3,160,288 | (2,416,050) | (297,394) | (2,713,444) | 446,844 | | |
| Fencing | 11,316 | - | - | - | 11,316 | (11,316) | - | (11,316) | | | |
| Air Conditioners | 207,026 | - | - | - | 207,026 | (38,636) | (6,266) | (44,902) | 162,124 | | |
| Motor Vehicles | 4,470,903 | - | - | - | 4,470,903 | (4,470,903) | - | (4,470,903) | | | |
| Furniture & Fittings | 1,752,044 | 25,358 | - | - | 1,777,402 | (1,741,210) | (21,854) | (1,763,064) | 14,338 | | |
| | 12,742,192 | 465,124 | - | - | 13,207,316 | (10,894,379) | (393,464) | (11,287,843) | 1,919,473 | | |
| Total | 163,992,614 | 7,689,919 | (5,915,000) | 8,223,241 | 173,990,774 | (66,728,844) | (6,530,060) | (73,258,904) | 100,731,870 | | |

Ulundi Municipality
ANALYSIS OF PROPERTY PLANT AND EQUIPMENT
as at 30 June 2008

| | Cost / Revaluation | | | | | Accumulated Depreciation | | | Carrying Value R |
|-----------------------------|----------------------|------------------|----------------|-------------------------|----------------------|--------------------------|--------------------|----------------------|---------------------|
| | Opening Balance R | Additions R | Disposals R | Under Construction R | Closing Balance R | Opening Balance R | Depreciation R | Closing Balance R | |
| Land | | | | | | | | | |
| Land | 5,915,000 | | | | 5,915,000 | | | | 5,915,000 |
| Land | 52,206 | | | | 52,206 | (26,069) | | | 26,137 |
| Refuse Disposal Site | 5,967,206 | - | - | - | 5,967,206 | (26,069) | - | - | 5,941,137 |
| Buildings | | | | | | | | | |
| Buildings | 21,325,305 | 4,629,063 | | 2,762,711 | 28,717,079 | (6,716,129) | (1,922,950) | (8,639,079) | 20,078,000 |
| Infrastructure | | | | | | | | | |
| Roads | 47,688,897 | | | | 47,688,901 | (22,790,678) | | | 24,898,223 |
| Sewerage | 556,189 | | | | 556,189 | (278,094) | | | 278,095 |
| Electrical Infrastructures | 59,806,835 | | | | 63,081,215 | (18,327,622) | | | 41,260,646 |
| Water Mains & Purification | 1,136,743 | | | | 1,136,743 | (568,372) | | | 568,371 |
| Robots | 559,058 | | | | 559,058 | (111,812) | | | 447,246 |
| | 109,747,722 | 3,309,397 | 35,017 | - | 113,022,106 | (42,076,578) | (3,457,930) | (45,569,525) | 67,452,581 |
| Community Assets | | | | | | | | | |
| Sport Facilities | 1,580,398 | | | | 1,580,398 | (298,288) | | | 1,282,110 |
| Taxi Rank | 1,802,799 | | | | 1,802,799 | (1,246,950) | | | 555,849 |
| Swimming Pools | - | | | | - | - | | | - |
| Cemeteries | 160,834 | | | | 160,834 | (54,554) | | | 106,280 |
| | 3,544,031 | - | - | - | 3,544,031 | (1,599,792) | - | (1,599,792) | 1,944,239 |
| Other Assets | | | | | | | | | |
| Office & Computer Equipment | 2,739,886 | | | | 2,739,886 | (2,416,050) | | | 323,836 |
| Fencing | 11,316 | | | | 11,316 | (11,316) | | | - |
| Air Conditioners | 207,026 | | | | 207,026 | (38,636) | | | 168,390 |
| Motor Vehicles | 4,602,526 | | | | 4,470,903 | (4,253,400) | | | - |
| Furniture & Fittings | 1,793,073 | | | | 1,752,044 | (85,880) | | | 10,834 |
| Machinery & Equipment | 3,561,017 | | | | 3,561,017 | (1,741,210) | | | 1,344,753 |
| | 12,914,849 | - | 172,657 | - | 12,742,192 | (8,621,578) | (2,100,144) | (10,894,379) | 1,847,813 |
| Total | 153,499,113 | 7,938,460 | 207,674 | 2,762,711 | 163,992,614 | (59,040,146) | (7,481,024) | (66,728,844) | 97,263,770 |

Ulundti Municipality

APPENDIX C
SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT

For the year ended 30 June 2009

| | Cost / Revaluation | | | | | | Accumulated Depreciation | | | |
|-----------------------------|----------------------|------------------|-------------------------|--|----------------------|----------------------|---------------------------|----------------|----------------------|--------------------|
| | Opening Balance R | Additions R | Under Construction R | Reclassification to Investment Properties R | Closing Balance R | Opening Balance R | Current Depreciation R | Disposals R | Closing Balance R | Carrying value R |
| 2009 | | | | (5,915,000) | 7,438,513 | 3,052,391 | 485,324 | - | 3,537,715 | 3,900,798 |
| Executive & Council | 11,212,893 | 2,140,620 | - | - | 14,407,432 | 3,734,552 | 474,594 | - | 4,209,146 | 10,198,286 |
| Finance & Admin | 14,020,166 | 387,266 | - | - | 183,654 | 183,654 | - | - | 183,654 | - |
| Health | 183,654 | - | - | - | 14,927,318 | 3,638,540 | 368,589 | - | 4,007,129 | 10,920,189 |
| Community & Social Services | 9,476,134 | 961,643 | 4,489,541 | - | 1,570,410 | 1,028,336 | 49,521 | - | 1,077,857 | 492,553 |
| Public Safety | 1,495,121 | 75,289 | - | - | 2,079,634 | 2,075,909 | 3,725 | - | 2,079,634 | - |
| Waste Management | 2,079,634 | - | - | - | 54,512,480 | 22,987,119 | 1,407,991 | - | 24,395,110 | 30,117,370 |
| Road Transport | 46,941,171 | 3,784,609 | 3,733,700 | - | 74,286,082 | 27,735,715 | 3,511,055 | - | 31,246,770 | 43,039,312 |
| Electricity | 73,945,589 | 340,493 | - | - | 4,585,247 | 2,292,624 | 229,262 | - | 2,521,886 | 2,063,361 |
| Housing | 4,585,247 | - | - | - | - | - | - | - | - | - |
| Total | 163,992,609 | 7,689,920 | 8,223,241 | (5,915,000) | 173,990,770 | 66,728,840 | 6,530,061 | - | 73,258,901 | 100,731,869 |

For the year ended 30 June 2008

| | Cost / Revaluation | | | | | | Accumulated Depreciation | | | |
|-----------------------------|----------------------|------------------|-------------------------|------------------|----------------------|----------------------|---------------------------|------------------|----------------------|-------------------|
| | Opening Balance R | Additions R | Under Construction R | Disposals R | Closing Balance R | Opening Balance R | Current Depreciation R | Disposals R | Closing Balance R | Carrying value R |
| 2008 | | | | | (41,034) | 15,922,634 | 4,395,194 | 490,721 | (41,034) | 4,844,881 |
| Executive & Council | 13,868,718 | - | 2,094,950 | - | 8,544,407 | 1,602,561 | 273,132 | - | 1,876,693 | 11,077,753 |
| Finance & Admin | 8,544,407 | - | - | - | 183,654 | 183,654 | - | - | 183,654 | 6,668,714 |
| Health | 183,654 | - | - | - | 4,666,229 | 1,251,422 | 139,902 | - | 1,391,324 | - |
| Community & Social Services | 4,666,229 | - | - | - | 1,495,121 | 994,130 | 34,206 | - | 1,028,336 | 3,274,905 |
| Public Safety | 1,495,121 | - | - | - | 3,368,305 | 1,261,519 | 185,718 | (37,830) | 1,409,407 | 466,785 |
| Sport & Recreation | 3,373,240 | - | 32,895 | (37,830) | 2,079,634 | 2,072,184 | 3,725 | - | 2,075,909 | 1,958,898 |
| Waste Management | 2,079,634 | - | - | - | 49,201,790 | 21,271,767 | 2,666,427 | - | 23,891,298 | 3,725 |
| Road Transport | 43,984,757 | 4,629,063 | 634,866 | (46,896) | 73,945,589 | 24,359,699 | 3,457,930 | (81,914) | 27,735,715 | 25,310,492 |
| Electricity | 70,718,105 | 3,309,398 | - | (87,914) | 4,585,247 | 2,292,624 | 229,262 | - | 2,292,623 | 2,292,624 |
| Housing | 4,585,247 | - | - | - | - | - | - | - | - | - |
| Total | 153,499,112 | 7,938,461 | 2,762,711 | (207,674) | 163,992,610 | 59,455,491 | 7,481,023 | (207,674) | 66,728,840 | 97,263,770 |

Ulundti Municipality
APPENDIX D
SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE
for the year ended 30 June 2009

| | 2008 | | 2008 | | 2009 | | 2009 | |
|-------------------|-------------------|------------------|-----------------------------|---------------------|--------------------|------------------|--------------------------|--|
| | Actual R | Expenditure R | Surplus / (Deficit) R | | Actual R | Expenditure R | Surplus / (Deficit) R | |
| | 9,298,087 | 22,628,718 | (13,330,631) | Executive & Council | 1,588,303 | 30,101,773 | (28,513,470) | |
| 45,301,486 | 11,339,340 | 33,962,146 | Finance & Admin | 55,409,566 | 11,673,740 | 43,735,816 | | |
| 4,305,193 | 1,869,027 | 2,436,166 | Planning & Development | 2,594,117 | 4,383,683 | (1,789,566) | | |
| 434,565 | 3,271,603 | (2,837,038) | Community & Social Services | 61,143 | 3,873,505 | (3,812,362) | | |
| 236,340 | 5,530,159 | (5,293,819) | Public Safety | 996,434 | 7,886,329 | (6,889,895) | | |
| 83,159 | 3,557,818 | (3,474,659) | Sport & Recreation | 734,786 | 4,153,116 | (3,418,330) | | |
| - | 275,662 | (275,662) | Environmental Protection | - | 336,504 | (336,504) | | |
| 5,950,564 | 4,593,716 | 1,356,848 | Waste Management | 7,437,843 | 5,474,369 | 1,963,474 | | |
| | 5,920,602 | (5,920,602) | Road Transport | 14,412,180 | 5,036,797 | 9,375,383 | | |
| 321,859 | 322,040 | (181) | Housing | 44,040 | 77,300 | (33,260) | | |
| 21,138,183 | 25,543,059 | (4,404,876) | Electricity | 22,920,975 | 27,867,609 | (4,946,634) | | |
| - | 841,296 | (841,296) | Other | - | 916,393 | (916,393) | | |
| 87,069,436 | 85,693,040 | 1,376,396 | TOTAL | 106,199,377 | 101,781,118 | 4,418,259 | | |

Ulundi Municipality

APPENDIX E (1)
ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) FOR THE YEAR ENDED 30 JUNE 2009

| | 2009 | | 2009 | | Explanation of significant variances greater than 10 % versus budget |
|---|--------------------|--------------------|------------------|---------------|--|
| | Actual R | Budget R | Variance R | Variance % | |
| REVENUE | | | | | |
| Property rates | | | | | |
| Property rates - penalties imposed and collection charges | 19,189,210 | 19,611,029 | (421,819) | (2.15) | Collection pressures as a result of the general state of the economy under budgeted for |
| Service charges | 7,037,191 | 2,392,025 | 4,645,166 | 194.19 | |
| Rental of facilities and equipment | 22,378,664 | 21,897,766 | 480,898 | 2.20 | |
| Interest earned - external investments | 197,033 | 172,480 | 24,553 | 14.24 | Increased use of Municipal facilities |
| | 1,627,740 | 800,000 | 827,740 | 103.47 | Under budgeted |
| Interest earned - outstanding debtors | 0 | 2,500 | (2,500) | (100.00) | This interest has been included within normal income received on the consumer accounts |
| Fines | 280,330 | 201,770 | 78,560 | 38.94 | Increased revenue against budget |
| Licences and permits | 716,104 | 306,000 | 410,104 | 134.02 | Increase income based on general requirements for these services |
| Government grants and subsidies■ | 52,815,761 | 50,493,306 | 2,322,455 | 4.60 | |
| Other income | 34,677 | 15,000 | 19,677 | 131.18 | Recovery of cash shortages , not budgetted for |
| Gain on disposal of property,plant and equipment | 1,922,667 | 6,214,954 | (4,292,287) | (69.06) | Decline in expected property sales |
| Total Revenue | 106,199,377 | 102,106,830 | 4,092,547 | 4.01 | |
| EXPENDITURE | | | | | |
| Employee related costs | 35,397,753 | 38,945,580 | (3,547,827) | (9.11) | |
| Remuneration of Councillors | 9,129,459 | 8,756,851 | 372,608 | 4.26 | |
| Bad debts | 7,936,213 | 786,204 | 7,150,009 | 909.43 | Grossly under-budgetted , provision adjusted accordingly at year end |
| Depreciation | 6,530,061 | 8,142,728 | (1,612,667) | (19.80) | Fixed Asset Register updated in line with GRAP 17 compliance |
| | | | | | Cashflow constraints restricted general repairs and maintenance requirements and essential items were only addressed |
| Repairs and maintenance | 1,820,615 | 3,245,215 | (1,424,600) | (43.90) | |
| Interest paid | 32,768 | 49,218 | (16,450) | (33.42) | Over budgetted |
| Bulk purchases | 17,427,787 | 13,669,730 | 3,758,057 | 27.49 | Usage dictated increased purchases |
| Contracted services | 8,777,792 | 6,523,508 | 2,254,284 | 34.56 | Increased use in contracted services |
| General expenses | 14,728,670 | 17,090,376 | (2,361,706) | (13.82) | Over budgetted |
| Total Expenditure | 101,781,118 | 97,209,410 | 4,571,708 | 4.70 | |
| Surplus (Deficit) for the year | 4,418,259 | 4,897,420 | (479,161) | (9.78) | |

Ulundi Municipality

APPENDIX E (2)

ACTUAL VERSUS BUDGET(ACQUISITION OF PROPERTY,PLANT AND EQUIPMENT) FOR THE YEAR ENDED 30 JUNE 2009

| | 2009 Additions R | 2009 Under Construction R | 2009 Total Additions R | 2009 Budgeted Additions R | 2009 Variance (3,063,609) |
|-----------------------------|------------------------|---------------------------------|------------------------------|---------------------------------|---------------------------------|
| Buildings | 2,140,619 | - | 2,140,619 | 5,204,228 | |
| Infrastructure | | | | | |
| Roads | 3,784,609 | 3,733,700 | 7,518,309 | 11,043,212 | (3,524,903) |
| Electrical Infrastructures | 340,493 | - | 340,493 | 2,250,000 | (1,909,507) |
| Cemeteries | 263,711 | 4,489,541 | 4,753,252 | - | 4,753,252 |
| | 4,388,813 | 8,223,241 | 12,612,054 | 13,293,212 | (611,158) |
| Community Assets | | | | | |
| Sports facilities | 695,363 | - | 695,363 | - | 695,363 |
| Tourism Hub | - | - | - | 5,000,000 | (5,000,000) |
| Production Centre | - | - | - | 3,000,000 | (3,000,000) |
| | 695,363 | - | 695,363 | 8,000,000 | (7,304,637) |
| Other Assets | | | | | |
| Office & Computer Equipment | 420,402 | - | 420,402 | 251,300 | 169,102 |
| Air conditioners | - | - | - | 37,000 | (37,000) |
| Furniture and fittings | 25,358 | - | 25,358 | 193,160 | (167,802) |
| Machinery and equipment | 19,364 | - | 19,364 | 688,500 | (669,136) |
| Vehicles | - | - | - | 1,009,600 | (1,009,600) |
| | 465,124 | - | 465,124 | 2,179,560 | (1,714,436) |
| Total | 7,689,919 | 8,223,241 | 15,913,160 | 28,677,000 | (12,763,840) |

Capital expenditure during the year ended 30 June 2009 was restricted due to cashflow constraints

Ulundi Municipality
APPENDIX F
DISCLOSURE OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, ACT 56 OF 2003
FOR THE YEAR ENDED 30 JUNE 2009

| Description | Unspent balance at 1 July 2008 | Received 08/09 | Expenditure 08/09 | Transfer 08/09 | Unspent balance at 30 June 2009 | Grants delayed/ Withheld | Compliance with grant conditions YES/NO |
|--|--------------------------------------|-------------------|----------------------|-------------------|---------------------------------------|-----------------------------|--|
| | R | R | R | R | R | R | YES |
| NER Electricity | 1,737,881 | - | - | - | 1,737,881 | N/A | YES |
| Indigent Support | 454,867 | - | - | - | 454,867 | N/A | YES |
| Management Assistance Program | - | - | - | - | - | N/A | YES |
| Community Gardens | - | - | - | - | - | N/A | YES |
| Skills Development | 360,320 | 197,019 | 311,560 | - | 245,779 | N/A | YES |
| Finance Management | 308,009 | 500,000 | 274,084 | - | 533,925 | N/A | YES |
| Development Planning | 191,559 | - | - | - | 191,559 | N/A | YES |
| Tourism | 56,575 | 30,000 | - | - | 86,575 | N/A | YES |
| Sector plan | 195,588 | - | - | - | 195,588 | N/A | YES |
| LUMS | 128,205 | - | 56,088 | - | 72,117 | N/A | YES |
| Housing plan | 46,771 | 77,300 | 44,040 | - | 80,031 | N/A | YES |
| Anti corruption | 8,473 | - | - | - | 8,473 | N/A | YES |
| Library equipment | 5,462 | - | - | - | 5,462 | N/A | YES |
| MFMA implementation | 104,513 | - | - | - | 104,513 | N/A | YES |
| Dev Inform. System (GIS) | 15,935 | - | - | - | 15,935 | N/A | YES |
| Inter dept. monitoring | 63,780 | - | - | - | 63,780 | N/A | YES |
| MSIG | 1,070,024 | 735,000 | 864,607 | (102,947) | 837,470 | N/A | YES |
| Strategic planning | 4,362 | - | - | - | 4,362 | N/A | YES |
| Community development workers | 96,087 | - | - | - | 96,087 | N/A | YES |
| MDIS support | 125,000 | - | - | - | 125,000 | N/A | YES |
| Performance Management | 253,764 | - | 210,900 | - | 42,864 | N/A | YES |
| MDPCB | 80,000 | - | - | - | 80,000 | N/A | YES |
| Capacity building | 234,500 | - | - | - | 234,500 | N/A | YES |
| Valuation roll | 244,000 | - | - | - | 244,000 | N/A | YES |
| Tennis courts | 117,105 | - | 117,105 | - | - | N/A | YES |
| Human resources policies | 77,108 | - | - | - | 77,108 | N/A | YES |
| Govt. structures and human resources | 150,000 | - | - | - | 150,000 | N/A | YES |
| Community consultation | 116,518 | - | 219,465 | 102,947 | - | N/A | YES |
| MIG | 3,263,164 | 12,394,000 | 12,487,593 | - | 3,169,571 | N/A | YES |
| Investment Plan | 200,000 | - | - | - | 200,000 | N/A | YES |
| Unit M | 560,000 | - | - | - | 560,000 | N/A | YES |
| Housing projects | - | - | - | - | - | N/A | YES |
| REDS | 150,000 | - | - | - | 150,000 | N/A | YES |
| H V Cable Tester | 460 | - | - | - | 460 | N/A | YES |
| Basic bookkeeping training | 100,000 | - | 98,788 | - | 1,212 | N/A | YES |
| CBD Roads | 670,822 | - | 670,822 | - | - | N/A | YES |
| Zondela roads | 1,253,765 | - | 1,253,765 | - | - | N/A | YES |
| Parallel feeders | 171,930 | - | - | - | 171,930 | N/A | YES |
| Sportsfields | 325,000 | 791,700 | 572,863 | - | 543,837 | N/A | YES |
| ZDM corridor development | - | 3,000,000 | - | - | 3,000,000 | N/A | YES |
| Electricity supply to households | - | 1,013,000 | - | - | 1,013,000 | N/A | YES |
| Implementation of municipal governance | - | 500,000 | 125,881 | - | 374,119 | N/A | YES |
| Total | 12,941,547 | 19,238,019 | 17,307,561 | 0 | 14,872,005 | | |

Princess S A Buthelezi
Municipal Manager
Ulundi Municipality
Private Bag X17
ULUNDI
3838

30 October 2009

Reference: 60637REG2008/09

Dear Princess Buthelezi

**MANAGEMENT REPORT ON THE REGULARITY AUDIT AND THE REVIEW OF
PERFORMANCE INFORMATION OF THE ULUNDI MUNICIPALITY FOR THE YEAR ENDED
30 JUNE 2009**

INTRODUCTION

1. This management report is provided to the accounting officer of the Ulundi Municipality in connection with our audit of the financial statements and the review of the performance information for the year ended 30 June 2009.
2. The report contains the following main subsections:
 - The Auditor-General's responsibilities
 - The Accounting officer's responsibilities
 - Significant findings from our audit of the financial statements
 - Financial matters
 - Governance matters
 - Significant findings from our review of the performance information
 - Ratings of the audit findings
 - Summary of detailed audit findings
3. Annexures A and B contain information on the detailed audit findings. The detailed findings were communicated during the course of the audit and include management's responses thereto.

THE AUDITOR-GENERAL'S RESPONSIBILITIES

4. Our responsibility is to express an opinion on the financial statements and to report on findings related to our review of performance information. Our engagement letter sets out our responsibilities in detail. These include the following:
 - Planning and performing the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements, whether caused by fraud or error.
 - Performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements.
 - Considering internal controls relevant to the entity's preparation and fair presentation of the financial statements.
 - Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management.
 - Evaluating the overall presentation of the financial statements.
 - Expressing an opinion on the financial statements based on the audit in accordance with the International Standards on Auditing (ISAs).
 - Evaluating non-compliance with applicable legislation relating to financial matters, financial management and other related matters.
 - Evaluating the appropriateness of controls, systems and processes to ensure the accuracy and completeness of reported performance information.
 - Reading other information in documents containing the audited financial statements.
5. Because of the test nature and other inherent limitations of an audit, we do not guarantee the completeness and accuracy of the financial statements or performance information, or compliance with all applicable legislation.
6. Having formed an opinion on the financial statements we may draw the user's attention, when in our opinion it is necessary to do so, by way of additional communication in the auditor's report to:
 - a matter, although appropriately presented or disclosed in the financial statements, that is of such importance that it is fundamental to user's understanding of the financial statements; or
 - as appropriate, any other matter that is relevant to the user's understanding of the auditor's responsibilities or the auditor's report.

These items are normally included under the headings 'emphasis of matter' and 'other matters' respectively in the auditor's report and include an indication that they do not affect the auditor's opinion.

THE ACCOUNTING OFFICER'S RESPONSIBILITIES

7. The accounting officer's responsibilities are set out in detail in the engagement letter. These include the following:
 - The preparation and fair presentation of the financial statements in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP), as set out in accounting policy note 1.
 - Designing, implementing and maintaining internal controls relevant to the preparation of the financial statements.

- Selecting and applying appropriate accounting policies, and making accounting estimates that are appropriate in the circumstances.
- Disclosing known instances of non-compliance or suspected non-compliance with laws and regulations, of which the effects should be considered when preparing financial statements.
- Monitoring and reporting on performance against predetermined objectives.
- Providing access to all information that is relevant to the preparation of the financial statements and performance information, such as records, documents and other matters.
- Disclosing all matters concerning any risk, allegation or instances of fraud.
- Accounting for and disclosing related party relationships and transactions.

SIGNIFICANT FINDINGS FROM OUR AUDIT OF THE FINANCIAL STATEMENTS

FINANCIAL MATTERS

Material misstatements not corrected at the date of this report

8. All material misstatements have been corrected at the date of this report.

Material misstatements corrected during the audit

9. The following represents the material misstatements arising from a difference between the amount, classification or presentation of a reported financial statement item and the amount, classification or presentation that is required for the item to be in accordance with the applicable financial reporting framework. These misstatements were identified during the audit and were corrected by management. These misstatements were not prevented or detected by the municipality's system of internal control. We urge management to implement improved controls over the matters reflected as the root cause for the misstatements.

| Financial statement line item | Reason for misstatement | Dr | Cr | Root cause(s) (as per table below) |
|---|--|-----------|-----------|------------------------------------|
| | | R | R | |
| Operating expenditure | Costs incorrectly capitalised | 2 192 208 | | M 1, CA 4 |
| Intangible assets | | | 2 192 208 | |
| Bad debts adjustment | Provision for doubtful debts understated | 2 414 652 | | CE 1 |
| Provision for bad debts | | | 2 414 652 | |
| Creditors | Errors on the leave provision accrual | 584 941 | | CE 1 |
| Leave adjustment account | | | 584 941 | |
| Cash and bank | Receipts not recorded | 429 081 | | CE 1, CA 4 |
| Trade Debtors | | | 429 081 | |
| VAT input | Incorrect treatment of VAT on bulk purchases | 465 941 | | CE 1 |
| Electricity bulk purchase expense account | | | 465 941 | |

10. The following represents the material misstatements that arose from a difference between the disclosures in the financial statements and the **disclosures** required by the financial reporting framework. These misstatements were identified during the audit and were corrected by management. These misstatements were not prevented or detected by the municipality's system of internal control. We urge management to implement improved controls over the matters reflected as the root cause for the misstatements.

| Financial statement line item | Disclosure | Amount R | Root cause(s) (as per table below) |
|-------------------------------|--|-------------|------------------------------------|
| Cash and bank | Short term deposits disclosed as investments instead of cash and bank | 8 704 492 | M 1 |
| Accumulated surplus | Reserves shown separately in AFS and should be disclosed as Accumulated Surplus in terms of GRAP | 104 657 995 | M 1 |
| Contingencies | Disclosure incomplete | 2 400 000 | M 1 |

Legend

CE = Control environment (ISA 315.14(b) and A69-A75)

| | |
|---|---|
| The organisational structure does not address areas of responsibility and lines of reporting to support effective control over financial reporting. | 1 |
| Management and staff are not assigned appropriate levels of authority and responsibility to facilitate control over financial reporting. | 2 |
| Human resource policies do not facilitate effective recruitment and training, disciplining and supervision of personnel. | 3 |
| Integrity and ethical values have not been developed and are not understood to set the standard for financial reporting. | 4 |
| The accounting officer/authority does not exercise oversight responsibility over financial reporting and internal control. | 5 |
| Management's philosophy and operating style do not promote effective control over financial reporting. | 6 |
| The entity does not have individuals competent in financial reporting and related matters. | 7 |

RA = Risk assessment

| | |
|--|---|
| Management has not specified financial reporting objectives to enable the identification of risks to reliable financial reporting. | 1 |
| The entity does not identify risks to the achievement of financial reporting objectives. | 2 |
| The entity does not analyse the likelihood and impact of the risks identified. | 3 |
| The entity does not determine a risk strategy/action plan to manage identified risks. | 4 |
| The potential for material misstatement due to fraud is not considered. | 5 |

CA = Control activities

| | |
|--|---|
| There is inadequate segregation of duties to prevent fraudulent data and asset misappropriation. | 1 |
| General information technology controls have not been designed to maintain the integrity of the information system and security of the data. | 2 |
| Manual or automated controls are not designed to ensure that the transactions occurred, are authorised, and are completely and accurately processed. | 3 |
| Actions are not taken to address risks to the achievement of financial reporting objectives. | 4 |
| Control activities are not selected and developed to mitigate risks over financial reporting. | 5 |
| Policies and procedures related to financial reporting are not established and communicated. | 6 |
| Realistic targets are not set for financial performance measures, which are in turn not linked to an effective reward system. | 7 |

IC = Information and communication

| | |
|---|---|
| Pertinent information is not identified and captured in a form and time frame to support financial reporting. | 1 |
| Information required to implement internal control is not available to personnel to enable internal control responsibilities. | 2 |
| Communications do not enable and support the understanding and execution of internal control processes and responsibilities by personnel. | 3 |

M = Monitoring

| | |
|--|---|
| Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting. | 1 |
| Reviews by internal audit, the audit committee or self-assessment are not evident. | 2 |
| Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken. | 3 |